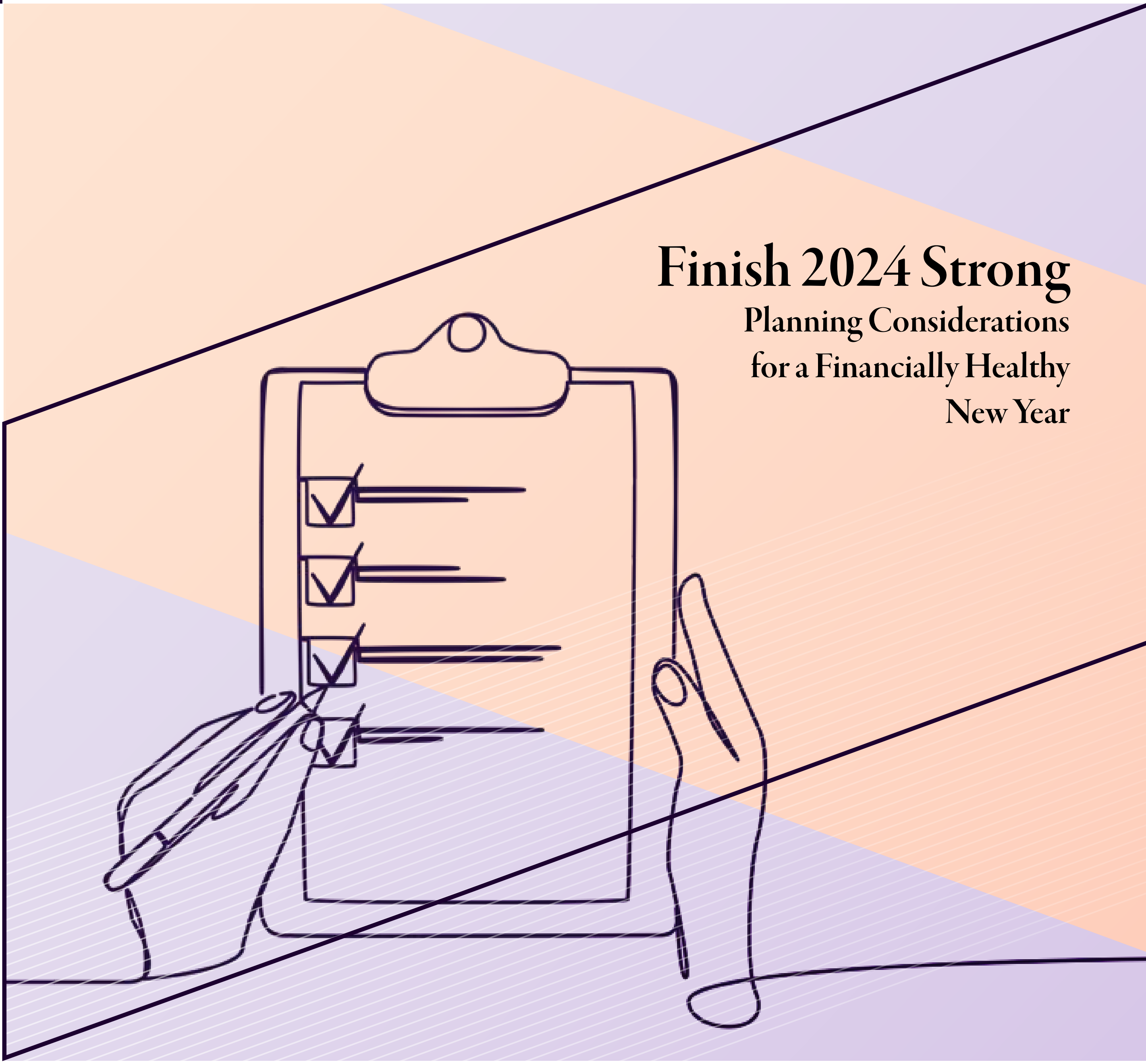
Digest

NEWS AND PERSPECTIVE FOR GROWING
AND PRESERVING YOUR WEALTH

Fall 2024



Finish 2024 Strong

Planning Considerations for a Financially Healthy New Year

In this issue...

Calm Amid the Noise

Beyond the spectacle, there may be actions you can take now that have a meaningful impact on your future.

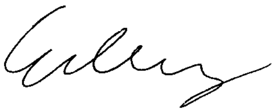
THE RUN-UP TO ANY ELECTION is filled with what-ifs – and this year's highly anticipated presidential election is certainly no exception. With candidates from both parties laying out markedly different futures for the country, it's natural for investors to speculate on what the election's results could mean for their finances.

While we'd caution against basing planning decisions on campaign rhetoric, there are steps you can take now to set you up strong for 2025 – regardless of the outcome. The macroeconomic experts from Strategas, a Baird Company, supply your advisor's wealth planning team with the latest analysis on market and policy trends, such as the future of the Tax Cuts and Jobs Act. This issue also arms you with year-end planning advice around IRA conversions, family gifting and tax planning moves – actionable strategies that could pay dividends both next year and well into the future.

The truth is, there's no predicting what tomorrow might hold. But staying connected with your Baird Financial Advisor can help ensure you're well-positioned no matter what happens in November.

Mike Schroeder

Chairman
Private Wealth Management



Erik Dahlberg

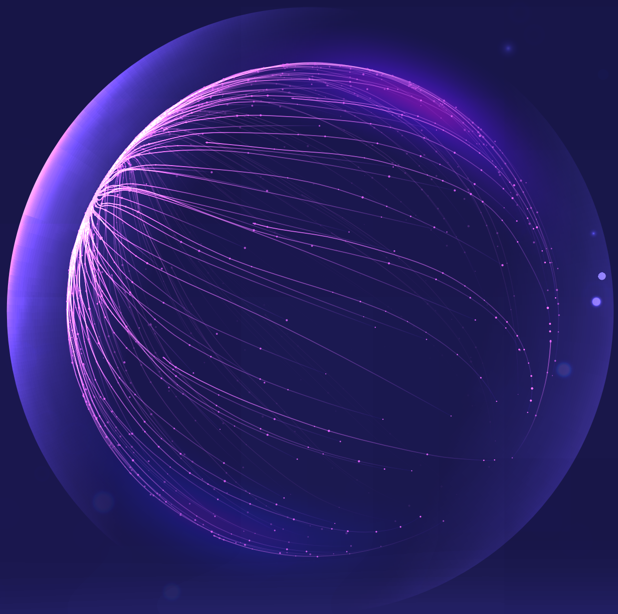
President
Private Wealth Management

Laura Thurow, CFA

Executive Director of Wealth Solutions and Operations

"By combining market insights with our planning expertise, we're able to create solutions for our clients that are personalized and proactive."

The Tech Boom: Sustainable Growth or 1990s-Era Bubble?



THE INCREDIBLE RUN of the stock market has led to many comparisons to the market performance of the late 1990s. There are many similarities, including a transformative technology central to both market and economic growth (then the internet, today artificial intelligence). We believe AI marks another in a long line of productivity-enhancing technologies reaching as far back, if not farther, than the agricultural revolution – though, like the dot-com boom and bust of the 2000s, the path to widespread usage and efficiency gains may be bumpier than investors would prefer.

While there are many similarities, we see a few key differences between today's market and that of the 1990s.

Like the late 1990s, today's market is historically concentrated in the country's biggest tech companies. The S&P 500's 10 largest stocks (i.e., just 2% of its companies) account for 35% of its total value, exceeding the prior peak of 26% set in 1999. Unlike the late 1990s, however, today's "Big Tech" conglomerate is both mature and quite profitable – in stark contrast to the less sound "internet darlings" of the late 1990s.

Said another way, today's top 10 are the top 10 for a good reason – the fundamentals back them up.

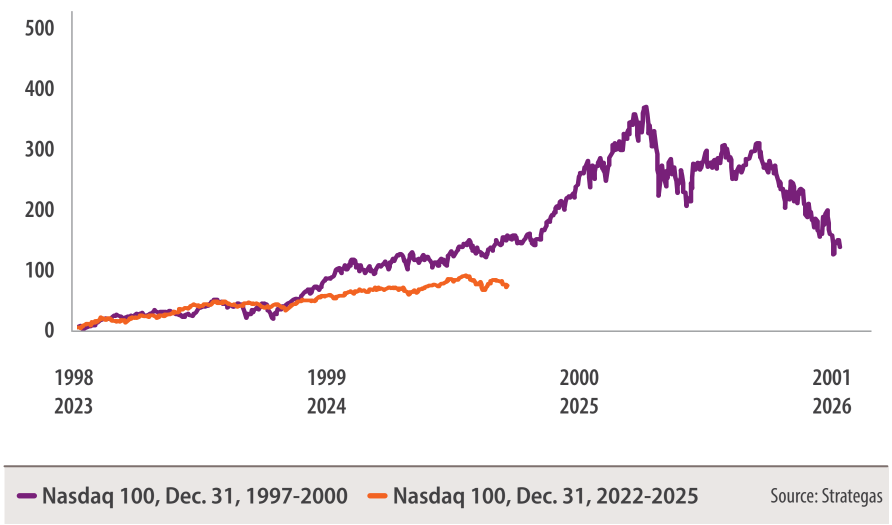
There's also a valuation comparison to be made. At their core, stocks represent ownership shares of a company – but what an investor should pay for that opportunity is up for debate. Investors often use simple heuristics like "price-to-earnings" to judge whether a stock looks expensive or cheap – the higher the price-to-earnings ratio, the more investors are paying for the promise of greater profitability down the line. Both the late 1990s and today saw the stock ▶

market rising to historically high P/E ratios – a sign of optimism that the underlying companies could deliver future earnings growth. But again, there's a stark difference between then and now: The P/E ratios in the late 1990s dwarf today's levels, with the most expensive stocks reaching nosebleed-level valuations. This doesn't mean every valuation today is justified – we might argue the market's risk/reward profile at current levels skews to the downside. But there is a material difference between today's "stretched" valuation and the late-1990s "insanity."

Speaking of insanity, investor sentiment seems far more muted today than during the dot-com bubble. This squares with the point made above: If investors are willing to pay higher prices for lower earnings, they must be even more excited about a company's future prospects. In the late 1990s, the country was in the grips of a stock trading mania: New internet companies were going public regularly, and money was flowing into stocks and mutual funds at a far greater pace than today. There simply isn't the investor interest, mergers and acquisitions activity, or overall froth today to signal a broad-based euphoria.

In terms of investor sentiment, the closest parallel to the late 1990s might not be today's AI moment, but the meme stock / SPAC / crypto craze of early 2021.

While the Nasdaq's current streak (orange) resemble its late-'90s run (pink), the market would need to skyrocket from here to match the blowoff top of the 1999–2000 dot-com bubble.



About Strategas

Strategas, a Baird Company, is a top-ranked independent research firm that provides market and macroeconomic insights and commentary. This article is an example of the perspectives our advisors have access to and are accounting for as part of your plan.

STRATEGAS A BAIRD COMPANY

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Of course, this doesn't mean the market will evade the volatility or big selloffs from the late-'90s. We've already seen the NASDAQ fall over 35% in 2022 when the Fed hiked interest rates to combat inflation. Plus the late 1990s had some economic advantages compared to today: Thanks to an enormous peace dividend after the fall of the Berlin Wall, the U.S. actually ran budget surpluses, and the price of oil fell to a mere $11 in 1998. But on the whole, we see little evidence of a bull market top forming – while we acknowledge the close comparisons to the late 1990s, we feel the economic cycle and bull market may yet have room to run before conditions must be reconsidered.

Year-End Guide

2024 Year-End Planning: A Proactive Approach

WHEN IT COMES TO our most valuable investments, maintenance is key. For example, you may:

- Complete annual physical exams and routine dental cleanings to keep up with your health.
- Get regular oil changes for your car to keep it running smoothly.
- Clean and inspect your home's chimney every few years to prevent the likelihood of a fire.

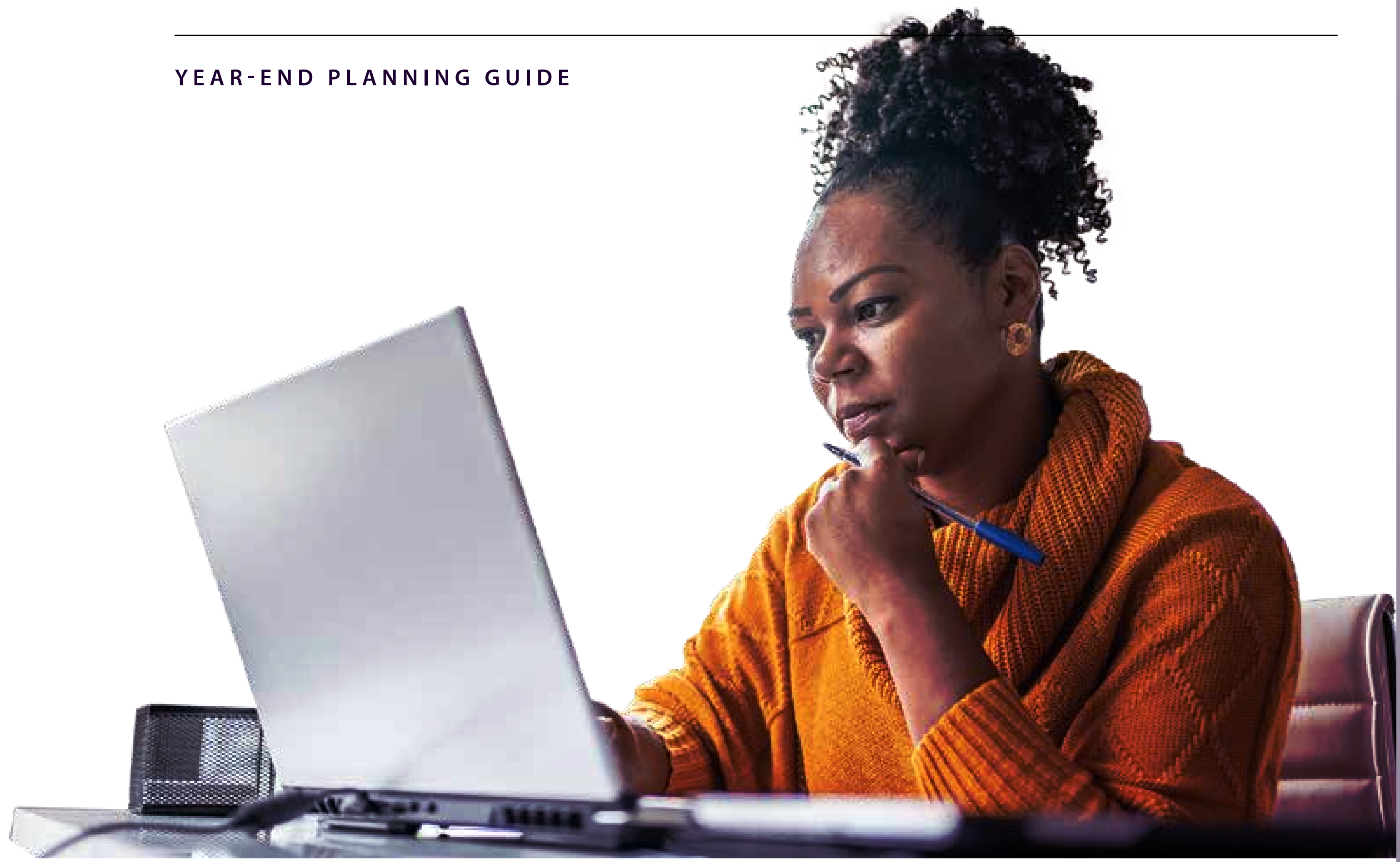
Your wealth management plan is equally deserving of a check-up to ensure you're making the most of it – and the end of the year can serve as a perfect time for this reflection.

Doing so leaves you enough time to take advantage of opportunities in the remaining months, while also setting your plan up well to respond to changes in the coming year.

In the following pages, you'll find strategies to optimize your wealth plan in collaboration with your advisor. You'll also see references to the Tax Cuts and Jobs Act, as there are provisions that are scheduled to expire in 2026 that may impact your plan. While it's unlikely that all provisions will expire as scheduled, it's best to discuss with your Baird Financial Advisor so you're prepared for whatever the coming years will bring.

Year-end planning isn't just about checking off tasks – it's an ongoing process to enhance your wealth plan and prepare yourself for what could come of the future.

Here's to stepping into 2025 with confidence.



Three Questions To Consider Before a Roth Conversion

Zach Chamberlain, CFP®, ChFC
Wealth Planner

A LARGE PART of what makes Roth IRAs such a popular investment tool is how they create a source of tax-free income for you through your retirement years – but while these accounts can be effective retirement savings vehicles, not everyone is eligible to contribute to them. To do so, you must be making income from a job and have a total income that falls under a certain threshold.

If you don't meet those criteria, though, don't fret – because there's another way to fund a Roth IRA: a Roth conversion.

When you execute a Roth conversion, you withdraw funds from your traditional, pre-tax retirement savings account and move them to a Roth account. When you do that, you are taxed on the amount converted, meaning you make the choice to pay on your savings today in exchange for tax-free growth in the future. Because of this upfront cost, it's essential to evaluate ▶

THREE QUESTIONS TO CONSIDER BEFORE A ROTH CONVERSION

Continued from page 5

whether a Roth conversion is in your best interest. At Baird, we analyze a Roth conversion strategy by considering three important questions:

1 HOW WILL YOU PAY THE UPFRONT TAX?

Ideally, if you choose to complete a Roth conversion, you'll use money from an account outside your IRA or 401(k) to pay the initial tax on the conversion. While you can keep some of the amount you withdraw from your IRA or 401(k) to cover the tax, that leaves less money growing tax-free. Plus, if you're under age 59 ½, the amount used for taxes will be subject to a 10% early withdrawal penalty. This doesn't necessarily mean a Roth conversion isn't a good strategy for you, but it will take longer for the benefits of the conversion to be realized.

2 HOW DOES YOUR CURRENT TAX RATE COMPARE TO YOUR FUTURE TAX RATE?

A Roth conversion is most effective if the tax rate on the conversion now is less than what the tax rate will be when you eventually withdraw those funds in retirement. And while we can't predict what tax rates will be down the line, we can predict your income level and analyze its tax implications both now and in the future.

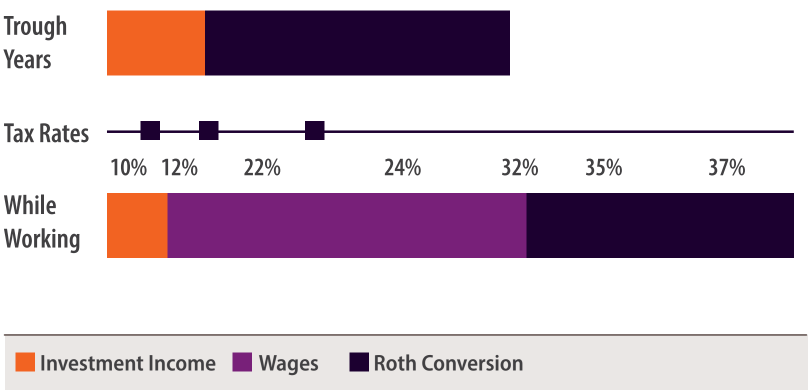
For example, if someone who is at their peak earnings level were to add on conversion income, they may take on a significantly higher tax cost. Instead, they could consider making that conversion after retirement when their wages have gone away and they're in a lower marginal tax bracket. This period (illustrated in the chart below) is called the "trough years" – the years after retirement but before Social Security benefits are collected and requirement minimum distribution rules take effect.

3 WHEN DO YOU PLAN TO WITHDRAW?

Generally, the longer you leave money inside the Roth after completing a conversion, the more effective the conversion will be. It's important to give the Roth time to grow tax-free and overcome the initial tax drag.

That may be longer than you're able to wait, and sometimes that even means your heirs are more likely to benefit from the conversion than you are – but that's okay. In fact, the most effective conversions are done with dollars you're never going to need in retirement. If you pay the tax on those savings now, you'll never have to touch them again, giving you years – perhaps decades – of tax-free growth.

As seen in this chart, layering a Roth conversion onto your wages during your working years can create a substantially higher tax rate.



To decide whether completing a Roth conversion is for you, consider these questions alongside your Financial Advisor in the context of your greater plan.

What the Sunset of TCJA Could Mean for Income Taxes

When the Tax Cuts and Jobs Act (TCJA) was passed in 2017, extensive changes were made to the federal tax code. Without any new legislation, certain provisions will sunset at the end of 2025, meaning we will revert to rules that were in place nearly a decade earlier. While this sunset may change with a new Congress, it's essential to begin scenario planning with your Baird Financial Advisor now to ensure you're prepared for future planning opportunities.

CHANGES TO TAX RATES

The rate at which your income is taxed is scheduled to increase by 2-4% if there is a sunset, and the income ranges on which the tax rates apply would also be adjusted. This means that, in many cases, taxpayers could be paying a higher tax rate on a lower level of income than what they do now.

▶ How you can prepare

To balance out the potentially higher tax rates in 2026 with the current lower tax rates, consider discussing strategies with your advisor that can pull income out of 2026 and into an earlier year.

CHANGES TO DEDUCTIONS

A sunset would bring about changes to the rules on both the itemized and standard deduction. For itemized deductions, the sunset would eliminate the $10,000 cap on the deduction for state and local income and property taxes. It would also allow taxpayers to partially deduct a series of miscellaneous expenses, such as tax preparation and investment advisory fees. Additionally, a larger portion of mortgage interest and interest on home equity loans would be deductible. However, the sunset would also bring back the itemized deduction phase-out – meaning taxpayers with income above a certain threshold would start to lose the benefit of their itemized deductions. ▶

WHAT THE SUNSET OF TCJA COULD MEAN FOR INCOME TAXES

Continued from page 7

On the other hand, this sunset would reduce the standard deduction size by nearly half, meaning some could see thousands in additional taxable income. This may be partially offset by the reintroduction of the personal exemption – a flat dollar amount for yourself and each household member to further reduce your taxable income.

▶ How you can prepare

Be cognizant of when you pay tax-deductible expenses, particularly charitable contributions. With the standard deduction potentially falling in 2026, more taxpayers would be able to itemize their deductions, meaning cash outflows like charitable gifts would be more likely to provide a tax benefit. As a result, delaying 2025 charitable gifts to 2026 could be valuable.

CHANGES TO TAX BENEFITS FOR FAMILY MEMBERS

While the sunset would reintroduce the personal exemption, it would also reduce the child tax credit by half (to $1,000). Along with this, the $500 credit for other dependents (those not qualifying for the child tax credit) would expire. Just keep in mind that both the exemption and credit would be subject to a phase-out for those with higher income.

▶ How you can prepare

Evaluate whether your children still qualify as dependents after 2025 to determine your eligibility for these tax benefits.

IMPLICATIONS FOR BUSINESS OWNERS

The TCJA put many provisions in place for business owners that were made permanent, and therefore would not be affected by the scheduled sunset. However, one provision that will potentially sunset is the Qualified Business Income deduction. This provision allows owners of pass-through businesses (sole proprietorships, partnerships and S corporations) to exclude up to 20% of their qualified business income from tax.

▶ How you can prepare

Time income and expenses to maximize this deduction while you can. Additionally, consider whether converting to a C corporation would be appropriate given the fact that the 21% corporate tax rate is not scheduled to expire with the sunset.

Kelsey Clair, CPA®, CPWA®

Senior Tax Strategist

"While we don't know if the expiration of the TCJA will ultimately occur, it's important that taxpayers are aware of the potential changes and begin planning for them now. This will allow for a smoother implementation of any previously discussed strategies."

For a detailed explanation on how the scheduled sunset of the TCJA could affect taxpayers, watch our video, "Preparing for a New Tax Landscape" featuring Tim Steffen, Director of Advanced Planning.

Passing Wealth Wisely

Tax-Free Family Gifting

FAMILY GIFTING can be a powerful tool to both support your loved ones and reduce your taxable estate. And while you can simply utilize your annual gifting exemption of $18,000 per recipient, per year to gift tax-free, there are also other, more specific strategies that can facilitate effective, tax-free gifting as well:

Making qualified tuition and medical payments
Paying tuition or medical expenses directly to the school or doctor does not count toward your $18,000 annual gifting limit. However, reimbursing a loved one for these expenses does – so be sure the funds go directly from you to the institution.

Gifting to a trust
Transferring assets into a trust can move them out of your estate while allowing you to maintain control over the beneficiary's access. However, the beneficiary must have a limited window to withdraw the gift or it's not eligible for the annual exclusion.

Gifting investment assets
Gifting highly appreciating assets, like real estate or stock, removes future growth from your estate. The recipient then pays the tax on any gain at sale.

Gifting to a 529 Plan
Gifting to a 529 plan lets you contribute up to five times the annual gift limit in one year by using "super funding," which allows those funds to start growing sooner.

The excess of gifts that surpass the annual gifting limit is applied against your lifetime exemption, which is $13.61 million in 2024 – and any gifts that exceed the lifetime limit are taxed at 40%. With the Tax Cuts and Jobs Act potentially expiring in 2026, this lifetime exemption amount could significantly decrease. This means that for some, it's essential to consider using the lifetime exemption now.

To find out who this applies to and why, watch our video, "Planning for a Timely Wealth Transfer Opportunity."

Planning Calendar

November 29

Last day to buy a security and recognize a loss on the sale of a substantially identical security by the end of 2024. (Sale must occur on December 30 or 31.)

December 1

The Free Application for Federal Student Aid (FAFSA) for the 2025–2026 school year will be available by this date. The deadline to complete the form is June 30, 2025.

December 31

Deadline for taking required minimum distributions from retirement plans for 2024 (extended to April 1, 2025, if 2024 is your first year to take RMDs).

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

Strategic Giving for the Greater Good

Make Your Charitable Gifts Count

YEAR-END IS A GREAT TIME TO think about how you'd like to support the charities you care about, but also how you can maximize the tax benefits of those gifts. The larger standard deduction we've had for several years now due to the Tax Cuts and Jobs Act means that deducting those gifts requires more planning – but these five gifting strategies will remain relevant under any tax scenario:

▶ **BUNCHING UP** Combining smaller, annual donations into larger ones every other year lets you take the standard deduction one year and itemize the next, ultimately giving you more in deductions.

▶ **DONATING STOCK** Directly donating long-term appreciated stock can be beneficial, as you avoid selling the stock and incurring a tax bill. Once the charity sells the stock, neither you nor they recognize the gain.

▶ **CREATING A DONOR-ADVISED FUND (DAF)** Using a bunching strategy with a donor-advised fund gives you the full tax benefit of the gift today while giving you time to decide which charities those gifts will go to.

▶ **MAKING QUALIFIED CHARITABLE DISTRIBUTIONS** At age 70 ½, qualified charitable distributions (QCDs) let you donate pre-tax IRA holdings. At age 73, you can begin counting those QCDs toward your required minimum distribution, avoiding tax. Just transfer the funds directly to the charity, and it won't be reported as taxable income. In 2024, the maximum you can contribute to a QCD is $105,000.

Scott Grenier, CFP®, AEP®
Manager, Tax & Estate Planning

▶ **FUNDING A CHARITABLE REMAINDER TRUST** This trust provides an income stream for you or another beneficiary for a set term or lifetime. Afterward, the remaining assets go to charity. You'll get an immediate charitable deduction based on the present value of the interest that will eventually go to charity.

Tying It All Together

Your 2024 Year-End Planning Checklist

Another year has passed, and it's time to update your 2024 year-end planning checklist. While some tasks remain the same, new opportunities arise with the potential 2025 sunset of provisions within the Tax Cuts and Jobs Act (TCJA), which are highlighted. While it's important to plan for a sunset now, consult your Financial Advisor before making any final changes – as the TCJA may not sunset fully as scheduled.

RETIREMENT SAVINGS

- ☐ Continue fully funding your retirement account. Your maximum contributions for 2024 are $23,000 for a 401(k) and $7,000 for an IRA ($30,500 and $8,000 respectively if you're age 50 or older).
- ☐ Work with your advisor to see if converting a traditional IRA to a Roth makes sense, especially if you're in a lower tax bracket this year. This tax-free growth could be especially valuable considering potential future tax rate changes. For key points to consider before completing a Roth conversion, see page 5.

EMPLOYMENT BENEFITS

- ☐ Max out your Health Savings Account (HSA) for 2024. You can contribute up to $4,150 individual coverage or $8,300 for family coverage, with an extra $1,000 if you're age 55 or older. HSAs allow you to build tax-advantaged money for future health expenses.
- ☐ If you've met your health insurance deductible for 2024, consider accelerating future health expenses into this year.

INSURANCE

- ☐ Review existing health, life, disability, long-term care, home and auto insurance coverage. Do these policies and coverage amounts still fit your current needs? ▶

Brad Bartick, CFP®

Wealth Planner

> "As the end of 2024 draws near, leave time for completing Roth conversions, taking annual RMDs, strategically harvesting investment losses and gains, making charitable contributions and utilizing other strategies before the December 31st deadline."

Year-End Guide

YOUR 2024 YEAR-END PLANNING CHECKLIST

Continued from page 11

INVESTMENT MANAGEMENT

- [ ] Review your portfolio's asset allocation, including personal and retirement accounts. Extreme swings in the market this year could leave your portfolio out of balance, leading to a mix of investments that no longer matches your goals.
- [ ] Consider "harvesting" losses on underperforming stocks, especially if you have realized gains that can be offset. Keep in mind the wash sale rules that restrict when you can repurchase investments sold for a loss.

CHARITABLE GIVING

- [ ] Connect with your advisor to evaluate your current gifting strategies. Properly timing gifts between tax years can maximize the tax benefit of your donations. For more information on timely charitable giving strategies, see page 10.
- [ ] Consider donating appreciated assets. This can provide a double tax benefit: you can deduct the full value of the position while also avoiding the capital gains tax on the growth.

ESTATE PLANNING

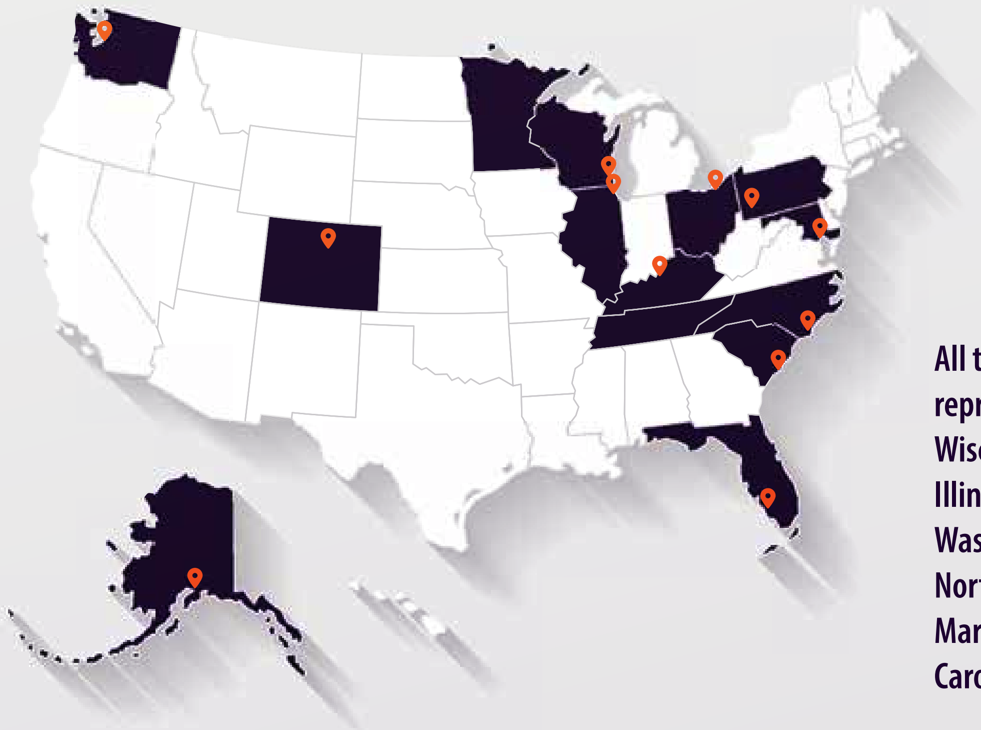
- [ ] Update all primary and successor beneficiary designations on retirement plans, insurance policies and more.
- [ ] Review your legacy administration decisions, such as power of attorney and healthcare proxy, and ensure all documents still reflect your intentions.
- [ ] Take advantage of the annual gift tax exemption. In 2024, any individual can gift up to $18,000 to any other individual under the annual exclusion limit (couples can gift $36,000). These gifts will benefit others while lowering your taxable estate.
- [ ] Consider strategies to take advantage of the lifetime gifting exemption before the window closes. In 2024, the exemption is $13.61 million per individual. This amount may fall by about half in 2026 under the sunset, so those with large estates should act soon.

PERSONAL FINANCE

- [ ] Review your income and expenses for the year. Have you made progress on goals like paying down debt or building an emergency fund?
- [ ] Prepare for potential tax rate increases in 2026. Tax rates are scheduled to increase 2-4% across the board after 2025, so consider actions like Roth conversions, stock option exercises and more to avoid those higher rates.
- [ ] Complete a credit check annually, and consider enrolling in a credit monitoring service.

PUT THESE STRATEGIES INTO ACTION

When you're done completing the checklist, tear it out and share it with your Financial Advisor before year-end!



All told, we have winners representing 14 states: Wisconsin, Tennessee, Illinois, Kentucky, Colorado, Washington, Minnesota, North Carolina, Pennsylvania, Maryland, Florida, South Carolina, Ohio and Alaska.

2024 GRANTEES

Putting Our Money Where Our Values Are

IN 2020, Baird established the Paul Purcell "Kids Win!" Annual Baird Education Grant to honor former Chairman & CEO Paul Purcell and his passion for education. Through funding by the firm, Baird Foundation and Baird associates, the grant has awarded more than $4 million to 45 organizations around the country, from Anchorage, Alaska, to Fort Myers, Florida.

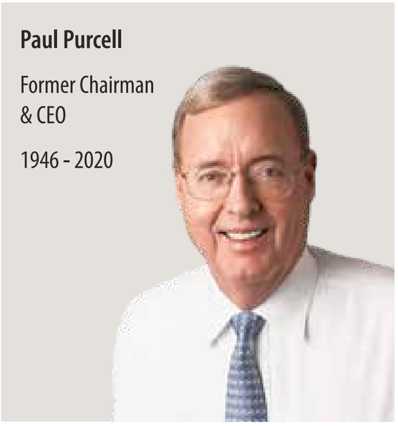
To learn more about the grant – and the life and leadership of the man who inspired it – visit rwbaird.com/kidswin.

Discover the *Baird Difference*

Paul Purcell

Former Chairman & CEO

1946 - 2020



"I firmly believe that those of us to whom much has been given need to give back."

Want More?

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

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