# Newsletter | January 2022

# Baird Trust Market Commentary

## The Main Thing

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*"The main thing is to keep the main thing the main thing"*

Stephen Covey

Imagine in January 2020 with the stock market at all-time highs, you had the prescience of knowing the world would be battling a global pandemic for the next two years. Assume you knew that 5.4 million people would die globally out of the 277 million disease cases, with over 800,000 of those deaths in the United States alone. Finally, suppose you had the knowledge that two years later a mutation of that infectious disease would be spreading faster than ever as the world continued to grapple with the COVID monster. At that time, with all this knowledge in hand, if you had predicted the total return for the stock market in the coming two years, imagine how dire your forecast might have been. Surprisingly, during these last two pandemic-laden years, the S&P 500 rose more than 50%. Imagine that!

### Why Such a Strong Stock Market?

One explanation for the strong stock market returns during this pandemic era is the massive fiscal and monetary policy response to the pandemic. The resulting tsunami of liquidity has helped lift asset values across the entire investment spectrum. An additional factor, technological innovation, has made the United States the undisputed leader of the digital revolution that is changing many aspects of how we work, communicate, and play. The massive moves to work-from-home and hybrid-work environments, as well as an acceleration in the shift to e-commerce, have boosted the growth rate of our domestic technology industry. The U.S. stock market has been the envy of the world in recent years led by the seemingly unstoppable growth of our gigantic technology leaders.

### The Unknowable Future

The past two years should serve as an emphatic reminder to all investors that future events and the stock market's reactions to them are unknowable. At Baird Trust, we think an important ingredient in achieving long-term investment success is to spend our time primarily on things that are knowable rather than unknowable.

Unfortunately, this is the time of year that many investment professionals make their predictions about the new year. It is important to remember, as you are bombarded with one prognostication after another, they are mostly dealing in the realm of the unknowable. As such, aside from some entertainment value, you should not take seriously their predictions about the future.

### So Many Distractions!

One of the most difficult challenges for investors is to stay focused and disciplined during turbulent periods with many distractions swirling about. For that reason, the last two tumultuous years have confused many investors. We have experienced economic lockdowns and re-openings, a disturbing number of small business failures, social unrest, political and societal polarization, and a growing distrust of many bedrock institutions of society. This unappealing backdrop combined with some of the strongest stock market returns in years has left many investors befuddled.

This rapidly changing world, combined with high-speed markets, has been difficult for any investor who has attempted to conquer the markets by hastily moving their investments around based on the news of the day. The enormous swings have simply been too volatile for most investors to succeed using a trading strategy. We think there is a better way.

## Our Main Thing

Stephen Covey was a noted educator and author whose most popular book was *The 7 Habits of Highly Effective People*. He is also known for saying "the main thing is to keep the main thing the main thing." While this maxim can be applied to many aspects of our lives, we think it is fundamentally important in the pursuit of investment success. In this swiftly changing and noisy world, it is all too easy for investors to get distracted from their "main thing."

Our main thing at Baird Trust is to help you achieve your investment goals while using only high-quality securities to help control for risk. With a largely unknowable future, we attempt to have your portfolios prepared for tough times before they arrive. We do this in stocks by focusing on sturdy, market-leading companies with durable business models and enduring advantages over their competition. We seek strong leadership and healthy corporate cultures, and we invest only at prices that make sense. We take a long-term business owner approach, which allows these successful companies to compound your investment for many years. This approach is simple to understand but difficult to execute well. It requires diligent study, discipline, and highly rational decision-making. We attempt to bring these attributes to the task every day.

We also focus on high-quality securities in fixed income by assembling portfolios of highly rated bonds that will stand the test of time through all kinds of environments. Discipline is especially important in this world of astoundingly low interest rates. The worst time to reach for yield is when it is hardest to find. We believe the risks today are simply not worth taking to achieve slightly higher yields.

## Avoiding Unproductive Assets

Staying focused on our main thing means we don't invest in areas that are outside our circle of competence. One such area is the broad category of unproductive assets. We invest solely in productive assets, which we define as securities that generate reliable streams of cash flows for the benefit of their owners. Productive assets provide some downside protection since investors will, under virtually all circumstances, be willing to pay some price for a sturdy, cash-producing asset. On the other hand, unproductive assets produce no cash flows and therefore, don't have as much downside protection. This doesn't mean they can't be successful investments. But it does mean the additional risks an investor takes in unproductive assets are not ones we are willing to take with your money. Risk mitigation is always on our minds when we are investing for you. Unproductive assets in the markets today have attracted a lot of attention and speculation. We include in this group many IPOs, SPACs, meme stocks, money-losing early-stage companies, and cryptocurrencies.

## Cryptocurrencies are Risky

Cryptocurrencies have been the focus of much investor attention in recent years and are worthy of further comment. While the underlying blockchain technology that enables them to exist is fascinating and likely to bring about profound changes in the future, we are still very early in understanding what those changes might be. While fortunes have been made by some early investors in cryptocurrencies, any investor who commits capital to that space should understand the elevated risk they are taking. An important element of our investment success over the years has been avoiding speculation in all its forms. Speculation is widespread in cryptocurrencies and other unproductive assets, and we are not tempted in the least bit to participate. Noted investor Andre Kostolany summed it up well when he said, "I can't tell you how to get rich quickly. I can only tell you how to get poor quickly; by trying to get rich quickly."

As we begin a new year, we thank you for entrusting your important investment assets to Baird Trust. We are humbled by the confidence you place in us. In this rapidly changing world, we strive to be a helpful source of stability for you. We value the relationships and friendships we have built with you in the past and pledge our best efforts to further strengthen them in the future.

# The Importance of a Family Meeting

**Jacqueline K. Russell, CFP®, CTFA**
Vice President
Trust Officer

The holidays are a great time to reconnect with family and friends on life events that have occurred since the last time seeing one another. Conversations about the social aspect of life are effortless; because we look forward to them, our discussions flow without much need to plan for them. However, other topics such as money or "what to do if something happens to me," requires much more thought and can induce stress, so we tend to avoid them. Many of us were taught not to discuss personal financial matters with anyone; I am not certain if the reason was for pride or protection. Certainly, it is not appropriate to know the neighbor's net worth, but there are reasons it makes sense to discuss personal wealth with family or other appropriate people.

Why? You might need their help someday to navigate your financial affairs when you can no longer manage them. Doesn't it make sense to bring them in the loop now, so they aren't scrambling around trying to figure it all out in haste? And when that conversation transpires, you should include a discussion about the family estate plan. Having a family meeting to discuss your estate and financial matters is a great way to facilitate this important conversation and could be a major step toward ensuring family wealth remains just that, family wealth.

We are entering into the "great wealth transfer" stage. This is significant because trillions of dollars will begin to transfer from spouse to spouse and parents to children. According to the Institute for Preparing Heirs, 90% of wealth transfers will not make it to the third generation. Sadly, in most situations it is not due to a failure to execute a proper estate plan. It has more to do with non-tax related reasons the legacy fails to thrive. First, some wealth creators don't trust family enough to share information and therefore fail to communicate financial matters with them. Many of my clients have disclosed to me that they were afraid if they shared family financial information, their children would lose the desire to become productive members of society. Second, there is a lack of education around money to prepare heirs for inheritance. Baird Financial Advisors continue to have informal discussions. Your Baird Financial Advisor has access to a variety of financial and estate planning material, and we're working to create a comprehensive suite of materials to better guide families in this area. Stay tuned. A third reason a legacy may fail is due to a lack of a coordinated mission or purpose for family wealth. Stephen Covey, author of *The 7 Habits of Highly Effective Families*, states, "A family mission statement is a combined, unified expression from all family members of what your family is all about – what it is you really want to do and be – and the principles you choose to govern your family life." Having family meetings about wealth promotes family unity by proactively addressing these issues so the family financial legacy can thrive.

Not sure if you need a family meeting? Ask yourself these questions:

- Do all family members know the family history and how their predecessors worked to arrive at the family wealth?
- Is our family prepared in the event of a medical emergency or an unexpected health diagnosis?
- Are our beneficiaries familiar with the general framework of the family's estate plan, and understand how it impacts them?
- Are beneficiaries aware of their future roles and responsibilities regarding the family estate plan?
- Has our family discussed the ultimate distribution of our keepsakes, art and collectibles?
- Has our family discovered the values we share and want to pass on to future generations?[1]

[1]Institute for Preparing Heirs, preparingheirs.com

- Do we have a charitable gifting program to foster a culture of gratitude and generosity, if applicable?

If the answers to these questions are “somewhat” or “no,” a family meeting may be beneficial.

How do you get started on the journey to plan a family meeting? Start slowly. Only you can decide what you feel comfortable sharing, but a great place to start is to discuss how the family earned their wealth and the wealth creator’s vision. Did you create the wealth or did a previous generation springboard the effort? The next step could involve describing the current estate plan and the roles family members have in implementing the plan. Depending on the complexity of your plan, the types of documents to discuss include powers of attorneys, wills, and trusts. Make sure your estate plan reflects your current wishes. If it doesn’t, you will need to do some work with your attorney to update documents before you schedule a family discussion. Once complete, you may wish to illustrate the plan by having an expert create a flowchart. A flowchart is a pictorial explanation of your estate planning documents and creates a much easier way to explain a plan than flipping through lengthy documents. Having family meetings is also a way to introduce trusted advisors to the next generation and can create continuity as wealth transitions. Trusted advisors can include the financial advisor, trust officer, attorney, CPA, and others who help steward the family legacy. Advisors can also be helpful in communicating the details of the estate plan during the meeting. Other meeting information that can be highlighted is a statement of net worth, location of important documents, disposition of personal property and collectibles, and the benefits of leaving money in trusts. All this information is important in creating understanding and respect around the family legacy plan.

The most important benefit of the family meeting is the impact made by the wealth creator(s) when they communicate their hopes and dreams for the family legacy. Sharing family values face-to-face is much more impactful than hearing it from a third party, such as an attorney or trust officer, they may not know. Sharing this personal information can help the family build a deeper understanding and respect around the plan’s purpose and intention. Creating a family mission statement is a new concept that families are beginning to explore. As trusted advisors continue to suggest building a mission statement, it can help ensure the family legacy and wealth endures beyond the third generation! The key that unlocks its effectiveness is involving the next generation in the process. This process can be transformational as we see family realize the legacy is not about what they “get from wealth,” but what they can “accomplish with wealth” together, for generations to come.

This article just scratches the surface of Baird’s commitment to our clients and their families when it comes to planning for the transfer of family wealth and values. We feel promoting financial literacy and helping prevent the sudden wealth syndrome for inheritors will be mutually beneficial in our pursuit to be good stewards for our clients and their families. Are you interested in learning more about having a family meeting? Contact your Financial Advisor to start a discussion.

# Baird Trust Client Information Portal

Did you know that Baird Trust offers online account access through our secure online portal? The Baird Trust Client Information Portal offers all the basic account information like balances and holdings, but also includes a few features you may not know about.

| What's Available |
|---|
| Cash Flows and Transactions |
| Asset Allocation Charts |
| Equity and Fixed Income Analysis |
| Comparison Tools |
| Custom Security Watchlist |
| Relationship Level Reports |
| Stock Quote Lookup |
| Online Statements |

| Features Include |
|---|
| Single-click to view an individual account or an aggregate of multiple accounts. |
| A holistic presentation of your total portfolio. |
| Enhanced analytical tools to help value and analyze your portfolio. |
| Single-click to view a year-to-date summary of account activity with the option to drill down to view the underlying list of transactions. |
| Data extraction through a direct feed to Quicken or the use of a sophisticated customizable extract feature. |

### Ready to get started?

To request a new access ID and initial password, please contact your Trust Officer or Portfolio Manager. Once you've received an Access ID and initial password, visit BairdTrust.com website and click on the "LOGIN TO YOUR ACCOUNT" button. Here you will also find user guides and additional information about the portal.

You can also contact us by email at BairdTrust-Info@rwbaird.com.

## Baird Trust Gives Back

Baird Trust supports a wide range of organizations, focusing on groups that  our associates devote their time to in order to maximize their impact. Over the recent holidays, we worked with three organizations that help strengthen the communities we live in.





### Home of the Innocents

Since 1880, Louisville's Home of the Innocents has provided shelter for children who have been abused, neglected or abandoned. In October, volunteers from Baird Trust sorted and organized items that had been donated to the Home during Baird Gives Back week, then prepared and decorated Christmas trees for the holiday season.


### Afghan Family Refugees

Baird Trust associates collected and sorted donations from members of the Patriot group – Baird's Associate Resource Group devoted to supporting our nation's veterans and their allies – for Afghan family refugees staying at Camp Atterbury in Indiana.


### Evansville's Mesker Park Zoo

The Baird Trust team helped to finish the penguin exhibit at the zoo, painting a fence and hauling rock for the area around the exhibit, and even got to watch the penguins arrive at their new home.