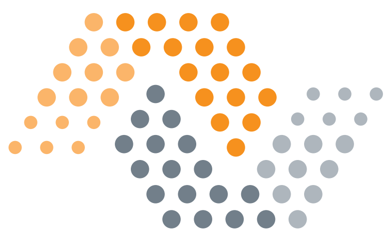


CURRENTS FALL 2019

O'BRIEN WEALTH PARTNERS IN THE NEWS...

- We are thrilled to congratulate Lis Zimmerman on 30 years with O'Brien! Lis was the founder's first hire in 1989 and has been an integral part of the organization since then. Her experience over the years has included client service, trading, investment research, financial planning and advising. She has obtained her CFP®, CASL® and CRPC® licenses. Lis is a Principal of the firm and Director of Financial Planning.
- O'Brien Wealth Partners enthusiastically welcomes Patrick Murray to our team as an Associate Advisor and Gabriella Castellano as a Client Solutions Specialist.
- A team from O'Brien spent a volunteer day serving lunch at the Boston Women's Lunch Place. The Women's Lunch Place is a day shelter community for women experiencing poverty and homelessness. Learn more about this organization at: **womenslunchplace.org**
- Most recently, Qing Yang has passed the CFA level III exam, Richard Davies earned the Investment Adviser Certified Compliance Professional® (IACCP®) designation, and Alena Taylor has received her certificate as a Notary Public.

A NOTE FROM JILL

Periods of market volatility like those experienced over the past few months can cause investors to question their commitment to the markets. A decline of more than 6% in most major market indices off of all time highs, like that experienced in July, certainly has the effect of muting the "feel good" factor that more stable markets invite. Couple this with inter- and even intra-day highs and lows largely precipitated by geopolitical brinkmanship, and the unsettled feelings can become magnified with every news flash or fresh Tweet.

In times like these it is gratifying to recognize how confident our clients are in our investment process, discipline, and in their individual financial plans. While some who follow the markets call to get our sense of the "noise" versus the reality, many simply take to heart the fact that market volatility is a part of investing, and that we have taken steps to position their portfolios for precisely such events.

One of our fundamental jobs is to ensure that we get the target asset allocation - the percentage of stocks, bonds, and alternative assets - right in light of our individual client's risk tolerance, time horizon, cash needs and goals. We often have conversations about market declines to the tune of "if the stock market declines by X% and your portfolio is down $X could you still sleep at night?" to test the emotional pulse of clients. This is just as important to meeting goals as ensuring that the economics work. Without the willingness to stay the course, and to remain invested through market cycles, the ability to meet goals becomes increasingly compromised.

Jill Fopiano, CFA, CFP®
President, CEO, and CIO

ETFs VS. MUTUAL FUNDS

By Qing Yang

In response to today's growing investable universe in the public markets, many individual investors are relying on investment vehicles such as mutual funds and Exchange Traded Funds (ETFs) to diversify their portfolios. There are more than 2,000 publicly traded small size companies, more than 33,000 foreign stocks, and hundreds of thousands of bonds outstanding in the U.S. alone. An individual investor would find it nearly impossible to replicate a truly diversified portfolio with this universe of potential investments.

The first mutual fund made its debut in the late 1700s, after the Dutch Republic's financial crisis, in order to provide small investors with an opportunity to diversify. This objective has been widely expanded to more than 8,000 mutual funds in the U.S. with $17 trillion of assets invested in mutual fund vehicles. ETFs were first introduced to the U.S. 25 years ago and have since accumulated more than $3 trillion in aggregate assets.

ETFs and mutual funds have a common investment purpose. Both are investment vehicles that combine investments from many investors, pooling money to purchase a range of different assets, and then slicing the fund into shares for investors. Therefore, both ETFs and mutual fund vehicles serve to provide individual investors with an efficient means of diversification.

However, there are significant differences in the way ETFs and mutual funds are managed. Most ETFs are designed to follow a certain index, rendering them largely passive investments by nature. Mutual funds on the other hand, tend to rely on the skill of the fund managers to make active investment decisions. Professional teams within a mutual fund decide which assets to buy or sell at any point in time, based on their views on the world economy and fundamental research on underlying companies. Because their assets are actively traded, capital gains or losses are passed through to investors.

In addition, mutual funds are not tradeable between investors, but are directly purchased from and distributed by the funds themselves. ETFs, on the other hand, were designed to be tradeable between investors in the open market. This gives ETFs a tax-efficiency advantage relative to mutual funds, as liquidation requests from investors do not force managers to sell assets in the portfolio. However, the open-market nature of ETFs lets the price of an ETF deviate from its intrinsic or Net Asset Value ("NAV"). Anytime during a trading day, differences in supply and demand from investors can cause the price of an ETF to be traded at a premium or discount to its NAV. Meanwhile, mutual funds are only available to investors at NAV, mitigating the pricing risk.

> Both ETFs and mutual funds are investment vehicles that combine investments from many individual investors to purchase a range of different assets. Both vehicles serve to provide individual investors with an efficient means of diversification.

We believe that both mutual funds and ETFs have a place in a diversified portfolio. Our goal is to find a smart mix of less costly, passive ETFs, complemented by active mutual fund managers in areas where we feel they can add value. By doing this, your portfolios benefit from the value-add of the most talented active managers we can find as well as broad diversification, lower fees and tax efficiency from the inclusion of ETFs.

Qing Yang
Associate Advisor, Investment Research

5 QUESTIONS ON RISK TOLERANCE AND DETERMINING AN APPROPRIATE ASSET ALLOCATION

By Lis Zimmerman

1. What are risk and asset allocation? Relating to one's financial picture, risk is the degree of exposure to market uncertainty and potential loss of investments. Asset allocation is a long-term investment strategy that aims to balance risk and reward by segmenting a portfolio's securities according to time horizon, goals, and risk tolerance. Typically, the more risk you incur, the higher the returns over the long term, but you must be able to withstand the volatility that comes along with that risk.

2. How do you weigh the financial risk with the emotional risk? The quantitative or numerical answer to a financial question may yield one result, but the qualitative or emotional side yields another. The financial risk is that your portfolio could lose value by a significant amount (25%, 30%, or 35% depending on the asset allocation), whereas the emotional risk is that your investments would cause you to lose sleep at night, or worse, convert to cash. It is important to strike a balance of taking on enough risk to obtain growth while protecting yourself in the event of a severe market decline.

3. What is the risk in not taking enough risk? As financial planners, one variable we rely on to estimate your long term cash flow projections is the rate of return earned on investments. While it may feel safe to protect against loss and hold a more conservative portfolio, in many cases this can actually be more risky than a balanced portfolio of equities and fixed income. The danger in not taking enough risk is that you might not fulfill the return required to grow your assets in order to keep pace with inflation, maintain your purchasing power, and earn enough to provide you with a reasonable withdrawal rate over time.

4. How do you know whether your asset allocation is appropriate? One test is to hold enough in liquid securities such as cash or money markets to cover living expenses.

For example, suppose an individual with $2.5 million in investments has an asset allocation of 60% equities and 40% fixed income. This means they have $1 million in fixed income. If they are drawing $100,000 per year, then the funds in the fixed income or more stable part of the portfolio will last 10 years assuming no growth. That is, in a declining stock market, you could live off of the fixed-income securities for 10 years without touching the equities, or more volatile securities, allowing them to recover. Since the past two market downturns took less than three years to recover, the 10 years should provide ample time. The key is having enough of your portfolio invested in fixed income or other investments that cushion your portfolio against a declining stock market.

5. What is often overlooked? Downside risk: It is easy to take on more risk when the markets are rising. We seldom receive any complaints about earning too much money! Risk has two sides though, and if you are willing to earn more in rising markets, you must be willing to lose more in declining markets. The perfect balance, or appropriate asset allocation, is when you feel as though you are participating in the growth during a rising market while also feeling protected in a declining market.

> It is important to strike a balance between taking on enough risk to obtain growth and protecting yourself in the event of a severe market decline.

Lis Zimmerman,
CFP®, CASL®, CRPC®

Senior Advisor,
Director of Financial Planning

Principal

WIDOWS AND MONEY—THE FIRST YEAR

By Cindy Kuppens

At O'Brien, we are privileged to work with our clients during various stages of their lives, some happy, some challenging and some devastating. Lately, I've been thinking about what we have learned helping women manage the financial aspects of the first year following the deaths of their spouses. I am not a widow myself, but have helped my mom and more than a few wonderful, very capable female clients make financial decisions at a time when they have suffered an enormous loss and are devastated with grief. One woman, whose husband died suddenly in his 40's as they were raising their three young children, told me, "I didn't come out of my fog for 13 months." While every woman handles loss and grief in their own way, we've seen that it can be helpful for them to receive guidance about finances so that they can focus on caring for themselves.

> While every woman handles loss and grief in their own way, we've seen that it can be helpful for them to receive guidance about finances so that they can focus on caring for themselves.

In some instances a woman may know that she will become a widow in the near term. While caring for a spouse facing death is emotional and draining, it is important for her to make sure that her spouse's estate documents are in order, and to know how to access all of the couple's savings and investment accounts. Often, it is helpful for taxable accounts to be held jointly or in a trust that will benefit her.

Another option is to make taxable checking and savings accounts "Transfer on Death" accounts, so that she owns the account after her spouse's passing. She should also know about any life insurance policies that may exist, as well as other insurance policies, such as medical, homeowners, and auto insurance.

Finally, she should ensure that she has sufficient cash on hand to pay for funeral expenses and living expenses for at least several months following her spouse's passing.

Sometimes however, there is no advance warning before a spouse passes. When this happens we help our client determine her immediate cash needs and identify all of her accounts and insurance policies. Whether or not a woman had advance notice of her spouse's death, the days and weeks afterwards are often a blur, full of arrangements, family and friends, and intense grief. In this situation we recommend that she tackle only these immediate financial tasks, and not focus on the long term just yet.

In the weeks and months following her spouse's death, we also work with our client and her estate attorney to identify financial actions that must be taken, including closing the spouse's credit card accounts, notifying insurance companies and retirement plans of her spouse's death, and changing the billing name on household accounts.

Several widows have told us that having a not-too-long checklist of financial or administrative tasks and seeing steady progress towards completion helps them feel more in control.

The adage that widows should not make big financial decisions in the first year after a spouse's death is good advice, unless there is an immediate need to cut expenses or increase income. In the first few months we suggest that a woman focus on determining her living expenses and understanding her income and net worth.

With her input we create a one year income and expense plan, so that she can feel comfortable taking the time she needs to care for herself, and to think about how she wants to structure her life going forward.

When our client is ready we will also educate her as needed on her portfolio and investing in general. Some widows have always been in charge of their investing and finances, but others divided household responsibilities, leaving financial management to their spouses. We meet each woman at her own starting point and work with her to tackle financial issues and plan for the future.

By the one year anniversary of her spouse's death, we often find that a widow has a good understanding of her budget, finances, and investments. Her grief is often still very intense, but she feels more confident in her ability to manage her financial life. Going forward we stay in close touch, and often coordinate periodic meetings with her accountant and estate attorney to ensure that her financial team works together for her ongoing security.

Working with our widowed clients is truly a privilege, and while their journeys are individual and personal, we hope to help in allowing them to feel informed and in control of their financial lives.

Cindy Kuppens, CFP®, AEP®

Senior Advisor

Principal

A TALE OF TWO INDICES: WHY WE USE THE MSCI ACWI AS OUR BENCHMARK

By Jill Fopiano

Selecting an appropriate benchmark is an important component in helping to guide our clients' expectations around their investment performance. An appropriate benchmark should closely reflect the universe in which the managers in your portfolio invest and allow for an "apples to apples" comparison of your portfolio's performance.

Our fundamental investment philosophy is one of disciplined diversification, as we recognize that all asset classes do not demonstrate identical performance at the same time, and that having a well-thought-out mix of investments is the best way to reach your long-term goals. Accordingly, we have given a great deal of thought to the benchmark that best represents our long-term investment approach and thus our client portfolios.

When investors think of benchmarks, the first thing that typically comes to mind is the Dow Jones Industrial Average or the S&P 500. Perhaps this is because the financial news media often uses these indices interchangeably with the word "market." In fact, these are both very narrow indices, representing just 30 and 500 of the largest publicly traded U.S. companies respectively. It's like measuring the performance of the U.S. Olympic team by only looking at the performance of the pole vaulters.

Since we invest in diversified portfolios we use a much broader and inclusive benchmark: the MSCI All-Country World Index (MSCI ACWI). Because our equity portfolio includes domestic stocks as large as Microsoft, with a market capitalization of more than $1 trillion, and emerging market stocks like Mitsubishi Pencil, with a market cap of $978 million, we need a benchmark that encompasses global stocks with a broad range of company sizes and styles.

Our benchmark is comprised of large, mid and small-sized companies across 23 developed and 26 emerging markets. It encompasses over 2,700 holdings, and makes up 85% of the investable universe in each of the countries it includes in the index. Its diversity of holdings makes it broadly applicable; $3.7 trillion in assets are benchmarked to the MSCI ACWI.

Why is the S&P 500, despite its popularity as a household name, not the appropriate benchmark for your O'Brien portfolio? For one thing, the S&P 500 does not include international holdings so it is only reflective of U.S. stocks. We allocate a significant portion of our equity holdings to foreign markets given the growing demographics and emerging consumer class, the increasing investment opportunity set, and the counter-cyclicality of the U.S. and foreign markets.

The economic and market conditions of regions of the world and specific countries are often very different, and using a benchmark that is limited to the securities of only one country would result in significant out-performance or under-performance depending on market conditions and currency fluctuations. The MSCI ACWI, which allocates approximately 50% of its holdings to non-U.S. countries including Japan, China, France, and 44 others, provides better representation of the universe in which we invest.

Beyond excluding international holdings, the S&P 500 focuses on the largest 500 companies in the U.S. with very little mid- and small-company exposure. We invest in mid- and small-size companies, both in the U.S. and abroad, as history has shown that over time there is a size premium investors receive from investing in smaller company stocks. However, benchmarking small-cap stocks to the S&P produces skewed results, as large multinational companies are impacted by geopolitical and market events in different ways than their smaller counterparts.

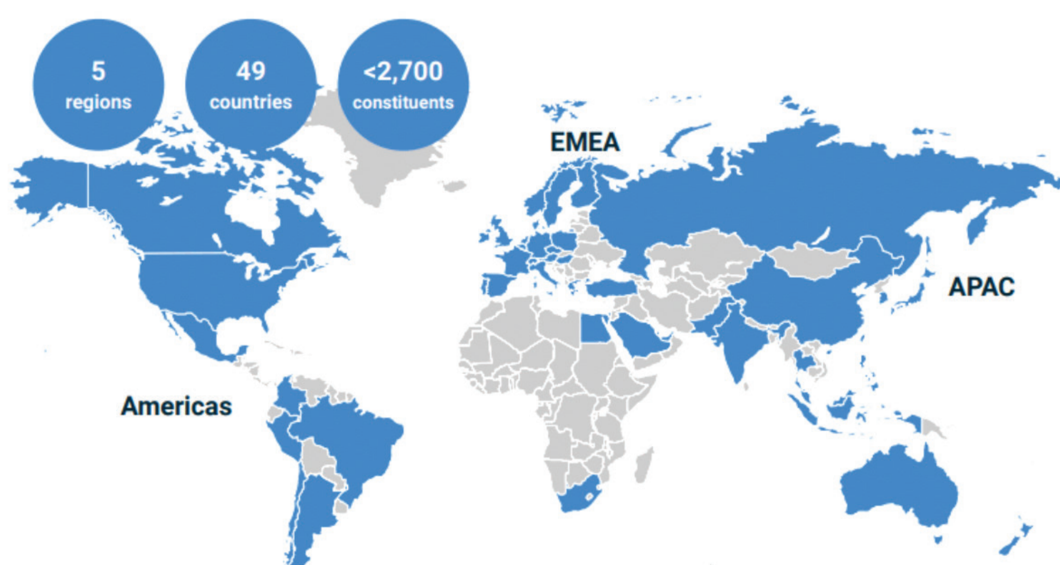
For example, the current trade tensions have presented companies like Apple with challenges such as supply chain disruptions and international sales declines. They have an entirely different impact on small-cap companies like PulteGroup, a U.S.-based home builder, whose focus is on domestic demand and the possibility of a recession. While the S&P 500 includes 10% in mid- and small-size companies, the MSCI ACWI holds almost 30% in these categories. This makes it a more appropriate comparison for the diversified portfolios we manage.

Financial reporting focuses on the S&P 500 because it is a well-known index weighted heavily toward companies that investors know beyond the finance world.

Most people have heard of the FAANG stocks – Facebook, Apple, Amazon, Netflix and Google – which account for a disproportionate share of the performance of the S&P 500. Our clients' portfolios hold these big names, in addition to their smaller-cap counterparts and international equities spanning the globe. Given this philosophical commitment to diversification, we believe it is more relevant for our clients to view their performance in the context of a broader benchmark that better represents our equity thesis: the MSCI All-Country World Index.

Jill Fopiano, CFA, CFP®
President, CEO, and CIO

MSCI All-Country World Index



TAKE A CLOSER LOOK...

Patrick Murray, CFP®
Associate Advisor

What did you do before O'Brien?

My career in the financial industry began at Brown Brothers Harriman, where I was a member of the Client Service Group Fund Accounting team focused on exchange traded funds. It was interesting to view wealth management on a larger scale, and to gain valuable experience. From Brown Brothers I moved to North American Management, a Boston-based RIA, as a part of the Client Services team. There I took an interest in personal finance and looked for an opportunity to work directly with clients. During this time, I also became a Certified Financial Planner (CFP®).

What drew you to O'Brien?

The amazing team of colleagues. I truly believe that in order to best serve clients, it is important to respect and support the people you work alongside every day. It is a joy to see how easily that supportive nature encompasses our colleagues as well as our clients. I look forward to paying it forward!

What is your role?

As an Associate Advisor, it's my responsibility to connect advisors and clients. I often join client meetings, as well as organize preparations and follow-up. This includes, but is not limited to, running financial planning projections, monitoring portfolios, performing administrative tasks, and trading within client accounts. Ultimately, my goal is to make clients feel comfortable with their financial future and that they're in good hands working with O'Brien Wealth Partners.

Tell us more about you…

Born and raised in Cleveland, OH, I am a proud supporter of all the city has to offer and am eagerly awaiting the day the Browns replace the Patriots atop the NFL hierarchy. A sports lover since birth, I grew up playing them all, but ultimately focused on soccer and was fortunate enough to be able to continue my playing career at Dartmouth College in Hanover, NH. While I am still very involved in the game today, you can also find me biking along the Charles River, playing spikeball at Carson Beach, or perfecting my bocce technique on the Boston Commons. I currently live in the South End of Boston and win the award for shortest commute, which I try not to mention too often around the office!

O'Brien WEALTH PARTNERS

ADVISORS | ANALYSTS | ADVOCATES

177 Huntington Avenue
Suite 2010
Boston, MA 02115

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HOW IMPORTANT IS IT TO TRACK YOUR SPENDING?

By Tim Pilczak

The typical financial plan is built upon a set of variables; some of the known inputs are based on a client's factual information such as account balances, property values and outstanding debt. Other inputs are based on calculated assumptions from both the advisor as well as the client. As planners, we spend a lot of time analyzing client data in an effort to maximize facts and derive the best possible assumptions. Oftentimes clients estimate their current and projected annual budgets rather than basing the figures on actual spending. Failing to accurately project their expenses can have a significant impact on the success or failure of their financial plan. A seemingly minor adjustment, up or down, can create a substantial difference in a client's plan over the long run.

For example, Mr. and Mrs. Smith are 50 years old and estimate that they spend $100,000 per year. Assuming a life expectancy of age 100 and a 2.58% inflation rate, here is what might happen if they over or underestimate their spending by just $15,000 per year over the next 50 years:

Assumed spending:	$100,000/year	x 50 years	= $ 9,900,000 (includes inflation)
Underestimated spending:	$115,000/year	x 50 years	= $11,400,000 (includes inflation)
Overestimated spending:	$85,000/year	x 50 years	= $ 8,400,000 (includes inflation)

Errors in assumed spending can lead to differences of well over a million dollars, if not more. The result of which means a client could be overspending or curtailing their quality of life unnecessarily.

We recommend analyzing your spending at least once a year. If you would like to talk about your financial plan or about using some of O'Brien's budgeting tools, please contact your O'Brien advisor.

Tim Pilczak, CFP®
Advisor

IN THE PRESS:

You can find Jill mentioned in the following publications!

- CNBC article, "It Takes Just 3 Minutes to Update 'Perhaps the Most Important Document in All of Your Financial Planning'."
- Business Journal article, "Old-Money Managers Adjust to New-Money Industries."
- NBC News article, "Financial infidelity: When to walk away and when to work things out" interview.

Links to the articles can be found in the News tab of our website.

- Find Jill's "Q&A: Brookline's Jill Fopiano explains why women should be talking about money" article in the Brookline TAB.