CURRENTS SUMMER 2018

A NOTE FROM JILL

One of the reasons our clients hire an advisor is to enable them to have the freedom to not think about their investments for periods of time. Given the volatility not only in the markets of late but in the world at large, the longer days of summer present us with an opportunity to recalibrate and refocus on family, friends and the things that really matter to us. With the uprising of racial tension and violence in our own country, and the geopolitical uncertainties we face in the world community, it is easy to become consumed by the negative news of the day as it is blasted across the 24/7 media outlets. Could summer offer us some time to turn inward, shut off the smart phones and commit to relishing our families around the BBQ pit, the beach blanket or the bike path?

We are your advocates and the stewards of your assets, and as fiduciaries we have both a moral and a legal obligation to put your interests first. Let us shoulder the vagaries of the market, confident that your portfolio is well-constructed for the long-run and that we are keeping a watchful eye on your behalf. Remember that this is not only the profession we have chosen but the job we love to do.

In this issue of Currents you will read two articles devoted to issues around estate planning and protecting yourself and your loved ones. Perhaps it is also time to commit to revisiting and updating your estate plan this fall. While we do not draft estate documents, we can assist you in reviewing your current plan, outlining your priorities and ensuring that they are appropriately reflected. We can coordinate with your attorney to make the process as seamless as possible.

Especially here in New England, summer days are fleeting and we hope you live them to the fullest. We hope they are filled with adventures and joy, and we wish you and your families safe travels to wherever your plans may take you.

Jill

Jill Fopiano, CFA, CFP®
President & CEO

EASING THE WAY FORWARD AFTER LOSS

By Lis Zimmerman

Losing a spouse or partner is certainly one of the most stressful things anyone can experience. It's an event with a myriad of emotional, financial and practical consequences. Almost immediately, the survivor encounters a wall of worries, issues and concerns. At O'Brien, we work with clients through all of life's stages, including this one, and we can say definitively that planning ahead can help ease this transition. Here are our recommendations for steps you can take to prepare for and smooth the way forward as you adjust to this new reality.

Prepare Together Marriage takes teamwork. Each spouse comes to the union with unique skills and plays different roles in making it work. When one spouse dies, the remaining spouse becomes responsible for everything. In collaborating with clients to manage their wealth, we encourage partners to discuss these difficult issues and clarify their wishes so there is less uncertainty.

Death brings emotional upheaval, and there is no need to add unnecessary financial uncertainty. Previous marriages and children, inheritances, multiple employers and retirement plans can all complicate matters. Making the time to talk and plan—perhaps including adult children and professionals such as financial advisors, trustees, health care proxies and other representatives who will play a role—can lessen practical burdens on the surviving spouse. Knowing what to expect can provide a significant measure of comfort.

Organize Digitally and On Paper Gathering essential financial and other critical information in one place makes life easier for the surviving partner—obviating the need for financial detective work at this difficult time. Many couples create a large binder with copies or notes about the location of documents like wills, trusts, birth and marriage certificates, insurance policies, loan documents, mortgage information and the like. Some go a step further by writing a letter communicating their wishes. With so much of our world living digitally, make sure to also establish a safe storage place with account numbers, websites and shared and individual passwords for online accounts—bank, credit card, utility, insurance and other institutions either of you deal with. We always recommend that clients review these lists annually.

Evaluate the Estate's Assets The estate plan is one of the most important pieces of your financial plan. When a partner passes away, many elements of the plan require updating: account titles and beneficiary designations on life insurance policies, retirement programs and IRAs, veteran's benefits, if applicable. Survivors will need to contact employers and financial institutions to find out exactly what each one requires. We also recommend that clients always have some cash on hand in your own name to pay any unexpected expenses.

Determine Future Sources of Income One of the first questions many people ask on the death of a spouse or partner is, "Do I have enough money to live on?" One useful exercise we perform with clients is to review long term cash flow projections without one spouse, to give couples an understanding of what income streams and assets the survivor will have available to them. It's particularly important to understand benefits from pensions and Social Security for which you are the beneficiary but not the owner. We also look at expenses. While living costs may decline eventually, sometimes survivors spend more money in the first year during the grieving period.

Rely On Your Advisor In the wake of loss, we feel it's best to postpone major decisions for at least a year. This is not the time to sell your home or make any irrevocable investments with lump-sum insurance or pension payouts unless absolutely necessary. Trusted family and friends are especially important now. As a part of our commitment to promoting and guiding our clients' financial wellness, we always connect with the other professionals and experts that you work with –including attorneys, accountants, insurance providers – to create your financial village. Moving forward after loss is never easy, but the right preparation and support can certainly smooth your path.

Lis Zimmerman, CFP®, CASL®, CRPC®

Senior Vice President, Client Relations & Financial Planning

Principal

O'BRIEN IN THE NEWS

O'Brien is growing!

- *Brenna LaPierre joined us in May as an Associate Advisor! Brenna recently graduated from Northeastern with a BA in Accounting and Finance. She spent her last two Co-op's with us here at O'Brien, and we are thrilled to welcome her back full time.*
- *Laurie Ho will be joining us for her Northeastern Co-op supporting Client Service and Advisory work for our clients.*
- *Justin Yi will be joining O'Brien for the summer as an Investment Analyst intern from the Wharton School at the University of Pennsylvania.*

Other News:

- *Tim Kaijala, our Director of Research, has passed the second (and final) exam of the Chartered Alternative Investment Analyst designation (CAIA). The CAIA is a globally recognized credential for professionals that manage and analyze alternative investments.*
- *Jill Fopiano, recently participated in another Reuter's Twitter Chat on the topic of last-minute tax implications under the new tax laws.*
- *Tim Kaijala recently spoke on an ESG investment panel with other ESG firms from the Boston area at Private Wealth New England Forum.*

PLANNING FOR ADULTHOOD

By Lauren Higgins

On the day of your child's 18th birthday, the world may seem to go on as if nothing has changed. However, when it comes to your child's financial and medical information and access to that information, everything changes. This new landscape can create hurdles for families when it comes to helping your child manage their financial and medical lives. For our clients with children approaching age 18 or 21, here are a few changes to be aware of and recommendations to managing those changes.

> "At age 18 the parent or guardian may lose legal access to certain accounts established for their child"

Financial Considerations with Custodial Accounts

At age 18, in most states including MA, your child has reached the age of majority. The age of majority translates to the age at which your child can apply for loans, open a credit card or even buy a home. The age of majority is also the trigger for when custodial accounts must be converted to individually titled accounts in your child's name. From an operations stand-point, the conversion requires your child to review and sign an account application and potentially other forms. Once that conversion has taken place, and without careful planning, **the parent or guardian no longer has legal access to the account or information regarding the account.** Depending on your family's situation, adding a parent or guardian as a Power of Attorney may be appropriate. This can be particularly helpful if the parent or guardian feels the child is not experienced (or mature!) enough to manage the account or direct distributions. There are different Power of Attorney options. Your O'Brien advisor can talk through the options with you to ensure the appropriate authorization is put into place to ensure a seamless transition for you and your child.

Healthcare Considerations

For many of the clients we work with, reviewing estate documents is a part of the financial checklist. Among the most important estate documents, we ask if you have a (updated) health care proxy. A health care proxy gives a named individual (or individuals) the ability to make medical decisions on your behalf if you are physically or mentally incapable of doing so. While it is frequently thought of as a document for aging adults, it is equally as important for your newly minted adult. Without a health care proxy, you no longer have legal access to their medical information. This can be particularly important for any college-bound child since you may find yourself talking with medical providers and hospitals in other states. We recommend having a health care proxy on-hand and discussing this with your child. If enrolled or enrolling in a college, talk with the school about their procedures if your child gets sick or injured. Having this information upfront may alleviate a potentially stressful situation.

In addition to a health care proxy, we recommend that your child have a HIPPA authorization. A HIPPA authorization allows medical providers to discuss your child's medical condition with the named individual (or individuals). This document, customizable by your child, coupled with the health care proxy are key legal documents to maintaining communication around your child's medical well being.

Once your child turns 18, they can open a credit card or bank account independent of a parent or guardian. They can also sign for a personal loan. Often this occurs at college orientation where local banks set up shop and market financial freedom to newly enrolled students. Mismanagement of credit or checking accounts can snowball into overdue balances, penalties, and long-lasting marks on your child's credit score. We encourage you to talk with your child about smart money management to ensure they begin learning financial independence while steering clear of any missteps. If you have questions about your custodial accounts, or talking with your children around money, please contact your advisor. We welcome the opportunity to talk with you and your family.

Lauren Higgins, CFP®
Advisor
Principal

5 QUESTIONS TO CONSIDER WHEN SETTING UP A POWER OF ATTORNEY

By Whitney Van Hise

Imagine for a moment that you have no control over your legal or financial decisions. Your voice is mute, and you are not able to communicate your wishes. Do you know someone that would (and could) take on these responsibilities on your behalf? Can you trust this person to act as you would in the situation at hand? Does this person know your financial values and goals? These are all important questions to ask yourself when delegating someone as your Power of Attorney (POA). Below are additional questions to consider when appointing a POA.

1. How do I delegate a POA? Depending on the type of POA, a lawyer may need to draft the legal document appointing your POA. Once you have the legal document, you can add the POA to each of your financial accounts. It is important to know what each of your financial institutions requires as many have their own unique set of forms. For example, Charles Schwab provides a POA form that can be used to apply a POA to accounts held at Charles Schwab. It is critical to note that this POA is only applicable while you are alive; upon death or incapacitation the POA becomes void.

2. Can I list two people as my POA? Yes, you can list multiple people as POAs. In fact it is very common to have more than one person. If you have multiple POAs for the same account, be sure the language of your legal document specifies if the POAs are required to work together or if they can act independently.

3. Where should I keep the legal document? The original document should remain in a safe place that is easily accessible. We encourage our clients to keep copies for their records, provide copies to their designated POAs and to file a copy with O'Brien. Having access to the document can expedite requests that often arise during a potentially stressful situation.

4. What are the different types of POAs? The definition of Power of Attorney (POA) is the authority to act for another person in specified or all legal or financial matters. Depending on your situation, one POA may be a more appropriate fit for you. Below is additional information on the POA types.

- Limited Power of Attorney (LPOA): usually authorizes the POA to access information regarding the account and place trades on the account holder's behalf. This authorization terminates upon death or incapacitation.
- Full Power of Attorney (FPOA): usually authorizes the POA to update and access information regarding the account, place trades on the account holder's behalf, and distribute funds. This authorization terminates upon death or incapacitation.
- Durable Power of Attorney (DPOA): usually authorizes the POA to update and access information regarding the account, place trades on the account holder's behalf, and distribute funds. The legal document necessary to execute a DPOA may outline additional actions that the DPOA may take on behalf of the account holder. This authorization does not terminate at incapacity but does terminate upon death.

5. Which POA is right for me? The right POA option depends on your situation and your goals. In some cases, you may be naming a POA for a friend or family member traveling overseas, or for a child who has recently turned 18. In other cases, it may be for an aging parent or family member. We can talk with you about the various options available and make a recommendation based on your unique situation.

There are many nuances to understanding, naming and executing a POA that is right for you. If you have questions, please give us a call.

Whitney Van Hise
Client Solutions Specialist

THE ACTIVE VS. PASSIVE DEBATE

By Tim Kaijala

Since the birth of the index fund, a debate has raged in the asset management industry over whether "passive" funds are "un-American" or ultimately superior to their more "active" stock-picking counterparts. Passive, or "index" funds, are investments that seek to simply track the performance of the market by buying all of the stocks in a part of the market at market-cap weighted levels. This gives investors a diversified way to access that entire part of the market in a low-cost manner. Proponents of passive management argue that it is hard for stock-pickers to outperform over time so you should simply buy the market as cheaply as possible. Proponents of active management believe that by being selective with the stocks you include in a portfolio, you can gain advantages over buying the entire market. By using fundamental bottoms-up research, active managers believe they can pick higher quality companies and achieve better risk-adjusted performance over the long-run.

> **"As independent researchers, we are unbiased and can apply our due diligence process to find the very best strategy in each asset class for our clients."**

Naturally, peddlers of active or passive strategies have near religious conviction that their side is always best. As independent researchers, we are unbiased and can apply our due diligence process to find the very best strategy in each asset class for our clients. We have found in our research that like many things in life, this issue is not black and white. Both sides make good arguments, but neither holds a monopoly on the truth.

Over the past decade we have experienced extremely low volatility in the equity markets, leading many to question the value of active management as all boats rose with the tide. Through the application of our research process we have found that in some asset classes passive or index funds truly are superior. In other asset classes we have found that active managers can add much more value than their costs.

As an example, in the U.S. large-cap equity space, we believe it is only the exceptional manager that can have an edge in the market. Large-cap companies are highly scrutinized and there is very little information that is not readily available to all participants. Said another way, this market is too efficient for the vast majority of managers to merit their fees, and to consistently beat their benchmarks over long periods of time. In this case, we will likely utilize an index fund to represent this asset class at very little cost.

Conversely, in emerging market countries, there is far less coverage by analysts on the local companies. There is also a good amount of information that is not readily available without boots-on-the-ground intensive research and due diligence. There are also structural reasons why an index may not be the best investment, including a high percentage of state-owned enterprises subject to political agendas that may be detrimental to shareholders and stock prices. In these cases, we believe that active managers can add significant value via fundamental company research and their views on the political climates of the countries in which these companies operate. Our research has also shown that a higher percentage of active managers in the emerging market space are able to consistently beat their benchmarks over time. In these cases, we will search for the very best active manager in this asset class and capitalize on their expertise to gain exposure to the space.

Likewise, the fixed income markets present other opportunities which give active managers an edge over their passive counterparts. In equity markets, passive indices are weighted based on a company's market capitalization, or size. This makes sense from an investment perspective as the index invests proportionately more funds with the largest companies. Size, in this case, adds a level of safety to the portfolio. In contrast, bond market indices are not weighted based on company size but rather on the amount of debt issued by that company. That means that the largest holdings in a bond index represent the highest levels of indebtedness – not necessarily the best factor to be structurally overweighting in your portfolio! Active managers, who are not beholden to buy the index, have more latitude in selecting fixed income securities that they feel offer relative value. They also add value on trading execution (as this is still an over-the-counter market), sector positioning, and yield curve positioning. Curve positioning is becoming increasingly important in an era of rising yields. As the yield curve flattens, and yields for bonds with different maturities get closer together, an active manager has the ability to move to shorter maturity bonds to get a similar level of yield for lower interest rate risk. During a decade of low yields many companies took advantage of low borrowing costs and issued long-dated debt. This has caused the duration (or interest rate sensitivity) of the Bloomberg U.S. Aggregate Bond Index to lengthen considerably. Given that this or a similar index is a typical passive fixed income investment, many investors in passive fixed income may be underestimating the amount of interest rate risk they are taking. Active managers, on the other hand, have the ability to intentionally buy shorter dated maturities to decrease interest rate exposure, which offers protection in an era of rising interest rates.

In conclusion, our philosophy in the passive/active debate is informed by the application of our rigorous due diligence process. How this philosophy manifests itself today is that we will use passive managers in efficient asset classes where we have not found evidence that active managers can consistently outperform, and active managers in more inefficient asset classes where we feel that they can add value over and above their fees. As market volatility picks up, there will be increased opportunity for active managers to demonstrate the ability to outperform a passive index. We frequently revisit our managers to ensure they are positioned well for the current market environment and will make replacements as necessary. As we have seen in many issues of our day, the truth is often hidden outside of the headlines and it is our task to dig deeper, know what we can and use our best judgment with what we cannot. We endeavor to be true to our mission of being advocates for our clients, conducting the research necessary to ensure we are picking the very best investments for your portfolio.

Tim Kaijala

Director of Investment Research

TAKE A CLOSER LOOK...

Cindy Kuppens, CFP®, AEP

Senior Vice President Client Relations

Principal

WHAT DID YOU DO BEFORE O'BRIEN?

I was a relationship manager at Fidelity for large corporate benefits outsourcing clients. I began my career as a human resources management consultant. That was the first step in learning about investments and the need for good financial planning. Along the way, in between consulting and Fidelity, I took time away from full-time work to be a full-time mom and part-time freelancer, finding writing, marketing and bookkeeping work.

WHAT DREW YOU TO O'BRIEN?

The connection to clients. When I was at Fidelity, part of the services our financial consultants provided was investment and financial counseling to our clients' 401(k) and pension plan participants. I realized that I wanted to be the one helping the participants one-on-one, not the person managing the business relationship. I was also ready for a smaller firm and through a friend, I found O'Brien. As soon as I met the team here I knew they were passionate about helping clients and always doing the right thing for them. I've been here 13 years and have never looked back!

WHAT IS YOUR ROLE?

I am an Advisor, working with clients to help them grow their portfolios and develop their financial plans. What makes me happiest is when a client realizes that they are on the path to reaching their life and retirement goals. I love getting to know our clients—for me, being an Advisor is much more than a job—it's personal.

In addition to my role as an Advisor I am also our Chief Compliance Officer, working with Richard and Kari to make certain O'Brien complies with all SEC requirements and also employs stringent rules and practices to protect our clients. We've built a culture of compliance, and every person at the firm takes this responsibility seriously.

TELL US MORE ABOUT YOU...

While I have been in the Boston area for 35 years I was born and raised a Jersey girl, growing up near the Hudson and yearning for the bright lights of the city. However, I went to college and business school in Minnesota and fell in love with farmland and the prairie (I guess I'm happy wherever I'm planted). My husband Mike and I have lived in Cohasset for the past 33 years, where we enjoy the ocean and hiking in the woods. Our children are grown now. Kate is in New York, working in publishing, and Christopher is in Breckenridge, Colorado working as a ski patroller, adaptive ski instructor and raft guide. We love visiting both of them! I also enjoy yoga, bicycling, hiking and reading. I've done a little bit of oil painting, which I enjoy tremendously, but I desperately need some lessons. (My husband says the same thing about his golf game!)