CURRENTS FALL 2020

A NOTE FROM JILL

As this edition of Currents goes to print, it is hard to believe we are in our sixth month of the coronavirus pandemic in the U.S. As you likely know, we are working remotely (as we have been since March 16th) and, for the most part, it has been a relatively seamless transition. This time has been stressful for most from both a physical and emotional health standpoint, and many have seen an impact on their work, financial well-being, and social relationships. We hope this issue of Currents finds you and your family safe, healthy, and coping well during this uncertain time. We are grateful to be able to work with you through this time, to hear your stories and concerns, and to connect with you on a deeper level than ever before.

Like many of you, our work hasn't paused. COVID-19 has had a huge effect on the economy and impacted the markets sharply in the first half of this year. This issue of Currents features two investment articles that are particularly relevant in this context. One presents an update on how sustainable (or ESG) investments have fared during this period of market stress, and the other looks at portfolio protection strategies in times of market volatility. We have also included a reprint of an article authored by Lis Zimmerman, recently published at www.medicaleconomics.com, regarding how doctors can take care of their financial health in a tumultuous time.

Clearly, we are still in the midst of a storm of unknowns in terms of the pandemic, and we expect continued uncertainty over the coming months. As you read this, we are contemplating plans to safely return to the office in the fall. We miss each other and we miss seeing all of you! In the interim, if you have suggestions on how we might continue to raise the bar on how we are communicating and engaging with you, please don't hesitate to reach out. We thank you for your confidence and trust.

Jill

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

5 QUESTIONS ON ESG INVESTING

By Austin Litvak

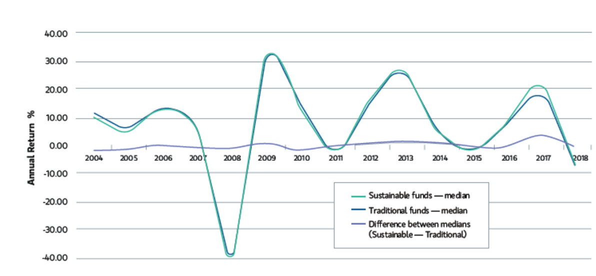
1. What is ESG investing? Environmental, Social and Governance (ESG) or "sustainable" investing emphasizes buying stakes in companies that offer the potential for positive returns, as well as have an impact on society that is aligned with your views. For example, this could involve investing in companies that minimize the conflicts of interest between senior management and investors, deal with their waste responsibly, and/or positively manage relationships with employees, customers, suppliers, shareholders, and the local community.

2. Isn't ESG investing just about excluding "sin" stocks? Excluding sin stocks has a long history, going all the way back to the Quakers in the 18th century refusing to invest in the slave trade. More recently, "positive" screening, such as best-in-class investing, building portfolios with specific sustainable themes and focusing on corporate engagement, has become significantly more prevalent. According to Robeco, an ESG-focused Investment firm in Europe, today there is more total money invested in positive screening strategies than in negative screening.

3. Does it cost more? ESG investing does tend to be slightly more expensive than traditional investing, as it involves a depth of research that expands well beyond balance sheets. That said, the incremental cost has fallen significantly over the past several years. Today, some ESG funds are now within 10 basis points of their "regular" peers, according to the DWS Group.

4. OK, but will I have to give up performance versus traditional investing? Not really. Morgan Stanley recently analyzed 11,000 funds over a 15-year period and found the annual net-of-fee performance of the median ESG fund (turquoise line above) was typically in line with its traditional fund equivalent (blue line above). To be sure, there were years where ESG investing underperformed—such as 2004 and 2010—and also outperformed—such as 2013 and 2017—but generally total returns have been comparable long term across asset classes.

Median Total Returns of Sustainable and Traditional Funds 2004-2018



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Difference in median returns (Sustainable - Traditional)	-1.50 **	-1.17	0.18	-0.37	-0.80	0.84	-1.37 **	-0.08	0.63	1.38	1.18	0.00	-0.23	3.63 ***	-0.03

Statistical Significance 99%+ *** 95%+ ** 90%+ *

Source: Morgan Stanley analysis of Morningstar data, 2019

5. Are there any portfolio construction benefits from ESG investing? Interestingly, one area where ESG investing has shown a consistent benefit versus traditional investing is in downside protection. That same Morgan Stanley study found that during market sell-offs, ESG fund declines were typically 20% less than those experienced by traditional funds.

For example, during the first half of 2020, both U.S. and global ESG stock benchmarks—while down in absolute terms—outperformed their traditional peers (the S&P 500 and MSCI All Country World Index), by 1.8% and 1.3%, respectively. Reasons for this outperformance include ESG investing's focus on the minimization of conflicts with stakeholders, leadership in environmental innovation, higher demand from socially and environmentally concerned consumers, and positive effects on workers productivity.

...best-in-class investing, building portfolios with specific sustainable themes...has become significantly more prevalent.

Austin Litvak,
CFA, CFP®, CBE®, CAIA
Director of Investment Research

O'BRIEN WEALTH PARTNERS

DID YOU KNOW?

- The first investable ESG mutual fund was started in 1971. 2019 marked the fourth consecutive year with at least 30 new fund inceptions. According to Morningstar's categorizations, at the end of 2019 there were **303** open-end and ETF sustainable funds available to US investors.
- Passive sustainable investment options including ETFs and open-end funds make up a little over one third of the sustainable universe with **106** offerings.
- Global sustainable funds saw inflows of **$45.6** billion compared to outflows of **$384.7** billion in the overall fund universe.
- Within the United States, net flows into sustainable funds for the first half of 2020 were **$20.9** billion, just shy of the annual record of **$21.4** billion set in 2019.

BEST FINANCIAL PRACTICES FOR BUSY DOCTORS

By Lis Zimmerman

HOW TO KEEP YOURSELF, YOUR FAMILY, AND YOUR PRACTICE FINANCIALLY FIT

Doctors are unique. You have spent years in undergraduate school, medical school, and residency. Now, you are responsible for managing the health of your patients. Between clinical and administrative duties, coordinating with other physicians, and keeping up with medical research and advances, you are wearing a lot of hats. So many, that it may become easy to overlook your own financial health. It is often said that "doctors make the worst patients." It is no different with financial advisors and your financial health. If you do not take care of yourself now, you will pay the doctor later.

THREE MAIN AREAS OF PRACTICE

Successfully managing your financial health can be broken down into three essential areas of focus. First is **Critical Care**: creating a roadmap to achieve financial security while you work and after you retire. The second is **Maintaining Wellness**: This includes regular "check-ups" and adjustments to keep your plan on track. Finally, **Specialized Engagements** address lifestyle-related issues that arise as your professional and personal lives evolve.

CRITICAL CARE

Like caring for your patients' physical health, the first step in managing your own financial health is gathering data and creating your roadmap for success. The data you will need includes income, expenses, housing, family, insurance, taxes, investments, and goals, both personal and financial. Over the course of your life, there will be changes, adjustments, and additions to your financial plan, but there are certain pieces that you will want to put in place early. These include:

- **Set Up a Savings Plan:** As a young investor, one of the most important concepts to understand is the power of compound interest. Saving early is arguably the most important component of your financial plan. First, you'll need to determine how much you should save and how much you are actually able to save. Next, you must decide where you will save, e.g. qualified retirement plan, SEP-IRA, brokerage account, or trust account. Lastly, determine how to allocate those savings according to your financial goals which may include saving for retirement or future college expenses, purchasing a home, or reducing debt.

- **Establish a Budget:** Identify fixed monthly expenses and variable expenses for yourself and your business. Establish emergency funds for unexpected expenses.

- **Debt:** Be sure to include any school, mortgage, or credit card debt in your budget. Assess whether you can lower your monthly medical school loan payments by consolidating and taking advantage of lower interest rates.

- **Evaluate Risk:** There are multiple types of risks, including:

  - **Market risk:** This is the often complex and delicate balance between taking on enough risk to obtain the growth you need while protecting yourself in the event of a severe market decline. Make sure that your savings are invested in alignment with your goals. You will need a mix of stocks and bonds. The stocks will provide the long-term growth and inflation protection, while the bonds will serve as a buffer against market declines. The right mix of stocks and bonds will depend on your personal goals and tolerance for risk.

  - **Business Risk:** The risk that you will be sued, either personally or professionally, may seem immaterial, but if it does happen you can be wiped out financially. Malpractice insurance is an important component of your business insurance, while an umbrella policy would add additional liability coverage to your homeowner's insurance in the case of a frivolous lawsuit.

  - **Personal catastrophic risk:** Ensure that you have adequate life and disability insurance.

MAINTAINING WELLNESS: STAYING HEALTHY REQUIRES REGULAR CARE

It is important to review your financial plan regularly—or immediately in the wake of a significant life event such as marriage, birth of a child, a health event, death of a family member, divorce, or changes in your practice.

Once each year, review your roadmap, including:

- **Investment Planning:** Make sure your asset allocation is still appropriate given your risk tolerance and goals and rebalance or change your portfolio if necessary.

- **Retirement Planning:** The retirement landscape is changing. Americans are living longer, which means they will require a larger pool of assets to support themselves during 20 or 30 years of retirement. Use a retirement planning tool or meet with your advisor to be sure you are on track.

- **Insurance Planning:** Review existing coverages and identify any uncovered risks, including health, disability, life, personal liability, business insurance, and long term care insurance.

- **Estate Planning:** It is critical to have a plan in place so that you have control over how your assets are distributed at your death and who is given authority to make medical and financial decisions on your behalf in the event of your incapacity. By planning ahead, you can also reduce taxes on what you leave behind and minimize the chances of unpleasant and costly family legal battles.

  Once your plan is developed, it is important to regularly review beneficiaries, trustees, health care representatives, and guardians.

- **Tax Planning:** It is important to ensure your tax plan is coordinated with your investment and estate plans.

- **Lifestyle Planning:** Revisit your goals for your housing, activities, and business including succession planning and multi-generational planning.

SPECIALIZED MEDICINE

As your life and practice evolve, you will encounter issues that call for specific financial actions. Some of the most common topics I address with clients include:

- **Planning for your Long-Term Care:** How will you pay for additional care that you or your spouse may need as you age? Will you purchase insurance or self-insure?

- **Housing:** Upsizing, downsizing, second homes. Buy or rent? Choosing the right financing.

- **Multi-Generational Financial Planning:** Work with your parents to make sure they are making adequate plans for their later years. Speak with your children to ensure they are working toward financial independence and intelligence.

FOUR KEY TAKEAWAYS

Paving a path to financial security requires time and effort—two commodities in short supply for busy physicians. In a study performed by Vanguard, they determined that making smart decisions can add up to 3% per year to a portfolio's return. This could add 10 years to the longevity of your portfolio and set you up for long-term success. Starting early is ideal, but it is never too late to begin.

Here is a summary of the most important steps to managing your financial health:

- **Begin** planning or, at a minimum, saving early. Understand the retirement options that are available to you.

- **Cover** your risks: business, life, disability.

- **Review** your roadmap periodically and after all major life events.

- **Coordinate** your investment, retirement, tax and estate plans to ensure desired results.

Lis Zimmerman, CFP®, CASL®, CRPC®

Senior Advisor, Director of Financial Planning

Principal

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2. Investments in securities are not insured, protected or guaranteed and may result in loss of income and/or principal. Diversification does not eliminate the risk of market loss and a long-term investment approach cannot guarantee a profit.

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HOW DO RECORD LOW INTEREST RATES IMPACT PORTFOLIO DIVERSIFICATION?

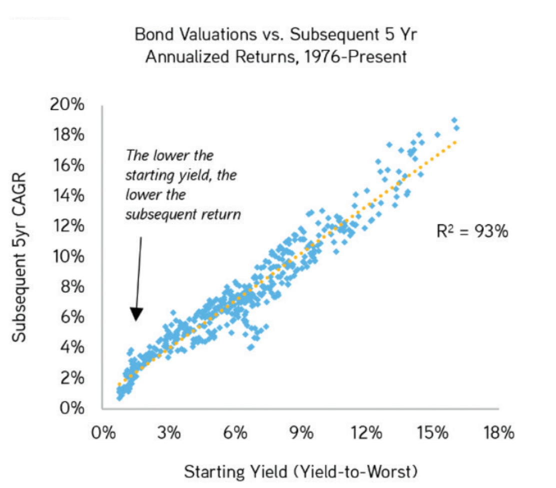
By Austin Litvak

For much of the past half-century, owning a mix of stocks and high-quality bonds has been a hallmark of investing, generating solid average returns while meaningfully reducing volatility versus owning stocks alone. The key driver of this dynamic has been a secular decline in interest rates – from almost 16% in 1981 to roughly 0.5% today for a 10-year treasury bond. This rate decline matters significantly because the price of bonds moves inversely to rates – when rates fall the value of bonds rise.

Today's record-low rates (or yields) suggest this tail-wind may have largely run its course. As such, should we expect these bonds to continue fulfilling the role they have historically played – income generation, equity market risk diversification, and capital preservation – at a similar level in the years ahead?

Bond income fades as yields fall. As shown below, there is a strong historic correlation between starting yields and long-term forward bond returns. Today, the yield of the U.S. Aggregate Bond Index – the benchmark for high-quality bonds – rests at roughly 1.1%, less than one-fifth its average over the past 40 years. This suggests high-quality bonds are on track to generate low single digit returns in the future.

The Lower the Starting Yield, the Lower the Subsequent Return



NOTE:
Barclay's U.S. Treasury Index (LUATTRUU Index) used for the calculations.
Data as of April 30, 2020.
Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

The diversification benefit of high-quality bonds has also started to decline. Stocks and high-quality bonds have tended to move in opposite directions historically. However, during recent stock market sell-offs, high-quality bonds have tended to falter as well, suggesting less diversification benefit when you needed it the most – when stocks prices are falling.

Low starting yields may also limit the ability of high-quality bonds to preserve capital as effectively during stock sell-offs. As shown in the table above, entering the Global Financial Crisis, a 10-year treasury bond yielded 4.6%.

...recent stock market sell-offs, high-quality bonds have tended to falter... suggesting less diversification benefit when you need it the most – when stocks prices are falling.

During that crisis, stocks fell 55% and the price of 10-year treasury bonds rose 35% (as rates fell), offsetting about 60% of the stock decline.

	S&P 500 % Change	10-Year Treasury % Change	Starting 10-Year % Change
Oct 07-Mar 09	-54.7%	+33.6%	4.6%
% Loss Offset		***61%***	
Oct 07-Mar 09	-33.8%	+10.5%	1.5%
% Loss Offset		***31%***	

Entering February 2020, a 10-year treasury bond yielded just 1.6%. During the market sell-off that followed, stocks fell roughly 35% but 10-year treasuries rose just 11%, offsetting only about a third of the stock decline. Today, high-quality bonds yield just 0.6%, leaving even less room for rates to fall – and offset stock market declines – before rates fall to 0% and have no further to go (absent rates becoming negative).

To be clear, high-quality bonds still provide income, diversification, and capital preservation benefits – just not as materially as they used to. In addition, certain subsets of the bond market, such as high-yield bonds, can still be used to meet some – but not all – of these roles.

High quality bonds are a form of stock market insurance, as they help mitigate the impact from stock market declines. But unlike other insurance (e.g. auto and life), they have paid you for owning them through their interest payments, instead of you periodically paying for them.

If high-quality bonds are, therefore, now insurance we have to start paying for, it opens up for discussion other forms of stock market insurance that come with a cost to potentially complement them.

Today's low rates reduce how much this insurance pays you, particularly when accounting for inflation. If high-quality bonds are, therefore, now insurance we have to start paying for, it opens up for discussion other forms of stock market insurance that come with a cost to potentially complement them.

We are committed to providing the best possible options for our clients across markets, and our due diligence on this space is ongoing. We will provide updates as our exploration of these investments progresses.

Austin Litvak,
CFA, CFP®, CBE®, CAIA
Director of Investment Research

TAKE A CLOSER LOOK...

Qing Yang, CFA
Associate Advisor

What did you do before O'Brien?

After receiving a Bachelor's Degree in Business from the University of New Mexico and a Master's Degree in Finance from Boston College, I was able to gain valuable skills at Wells Fargo Advisors as a Client Service Associate. My role was to monitor and trade client portfolios with respect to their risk tolerance, along with processing client requests and assisting the Senior Advisor. I began studying for the CFA (Chartered Financial Analyst) while finishing college in 2011, passed the second level while working at Wells Fargo, and passed the third level to receive my CFA license after beginning my career at O'Brien in 2019.

What drew you to O'Brien?

I learned throughout the interview process that the people at O'Brien were well educated. They continue to show that they can adapt and change with the needs of the clients, the business, and the industry. It became clear very early that my role can be adjustable according to mutual respect of my skills and company needs. I started as an Associate Advisor and was able to cultivate my interest in investment research as well as strengthen my skills and interest in wealth advisory.

What is your role?

My role at O'Brien is two-fold. Half of my time is spent as an Associate Advisor joining client meetings, monitoring client portfolios, and working closely with advisors to provide the best service and advice to our clients. The other half of my time is spent doing investment research. This includes studying the global economy and implementing ideas into our clients' portfolios, performing ongoing due diligence on fund managers, and assisting with trading and portfolio management of our client accounts.

Tell us more about you...

My wife and I have traveled to China, Canada, Japan, and the UK and planned to visit Europe this year (until COVID prevented that), but our favorite thing to do is enjoy a stay-cation with our Shiba Inu, Bagel. Outside of spending quality time with my wife and my dog, my favorite activity is relaxing. My least favorite activity is getting my hair cut. It grows back so fast! One of the best things about living in the Boston metro area is the variety of cuisine and restaurant options. Currently, our favorite is a hot pot restaurant called Liuyishou in Chinatown. Before COVID there was frequently a 2+ hour wait, so we are thankful they do takeout!

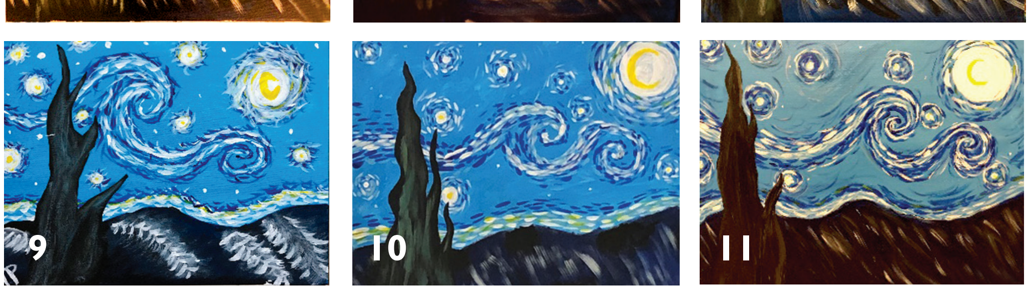
O'Brien WEALTH PARTNERS
ADVISORS | ANALYSTS | ADVOCATES

177 Huntington Avenue
Suite 2010
Boston, MA 02115

INSIDE

Can you guess which painting belongs to which O'Brien team-member?

Our team spent an evening last December painting "Starry Night." Below are a few of the final paintings. Can you guess which one belongs to which team-member?



Answer key: **1.** Lauren Higgins **2.** Jill Fopiano **3.** Jonathan Smith **4.** Richard Davies **5.** Pat Murray **6.** Alena Taylor **7.** Lis Zimmerman **8.** Austin Litvak **9.** Tim Pilczak **10.** Qing Yang **11.** Kari Mekler

IN THE NEWS:

- O'Brien welcomed our former Co-op student, Jonathan Smith, to our team as our full-time Research Analyst after his graduation from Northeastern University in December.
- Austin Litvak joined our O'Brien team as Director of Investment Research in October. You can read more about him on our website: Austin Litvak
- Several members of our team were pleased to volunteer again at the Women's Lunch Place during the holiday season.
- Jonathan Smith and Brenna LaPierre both passed the Uniform Investment Adviser Law Examination. This examination, also called the *Series 65* exam, qualifies them as investment adviser representatives.