CURRENTS WINTER 2022

A NOTE FROM JILL

Dear Friends and Clients,

One of the things we like best about the nature of our profession is the personal relationships we develop with our clients. And one of the ways we share what is going on in our business and our personal lives is through this newsletter, Currents. 2022 was a year that saw many exciting changes for both the firm and our team, following two years of relative status quo during the restrictions necessitated by the pandemic. I would like to celebrate some of those moments with you, as I wish you and your families all the best during the Holidays and for the New Year.

First, as you will read later in the issue, O'Brien will be on the move in 2023, as we relocate from our offices in the Back Bay to University Office Park in Waltham. While we have enjoyed our Back Bay office space and our beautiful vistas of the South End, South Boston, and the Boston Harbor, the increasing congestion and traffic in the city and the loss of parking spaces in our current garage has made accessing our offices more difficult. The opportunity to design brand new office space to promote movement, collaboration and creativity, to comfortably accommodate clients, and to offer flexibility for the future was compelling. We are under construction now and we look forward to welcoming you to our new space.

It was an eventful year for our team as well. Two weddings, one engagement, a first-home purchase, a baby on the way, two sons off to college, multiple national and international vacations, and a few new four-legged friends. How's that for getting back to normal? Unfortunately, "eventful" isn't always positive, and we are still very much missing our colleague Kari since her passing earlier this year. We hope that you have found peace and happiness in your new "normal" that continues to grow.

2022 presented a lot of challenges to be sure, but a lot of good as well. We are optimistic that 2023 will continue to present opportunities for our clients, our business, and our team and we look forward to continuing to grow our relationships with you. Enjoy this issue of Currents and Happy Holidays!

All my best,

Jill

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

TAX LOSS HARVESTING: MAKING LEMONADE WITH MARKET LEMONS By Tim Pilczak

I have written before that we navigate our financial lives with few certainties. While paying taxes is one of them, the timing of when we pay can be meaningfully impacted by the financial actions we take. One such financial action we consider during market selloffs is called tax loss harvesting (TLH).

TLH can be used when the value of an investment in a taxable account has declined relative to its purchase price. The position is purposely sold to recognize the loss and the proceeds are then temporarily invested in a similar, but not identical, position to maintain the overall asset allocation of your portfolio. TLH is not useful in retirement accounts, given their tax deferred nature.

The loss can then be used to offset capital gains created from selling other taxable account positions at a gain and, potentially, up to an additional $3,000 of ordinary income per year. Any leftover losses can be carried forward into future years to offset income.

After an IRS-regulated 30-day holding period, the new position is then typically sold, and the original investment is repurchased. Through this action an investor can maintain their longer-term allocation while reducing the amount of taxes due in the short-term. The trade-off is that your investment position now has a lower cost basis than before, which will ultimately increase the tax liability if the position is sold in the future at a profit. As such, TLH doesn't eliminate taxes, but rather defers them into the future. The primary benefits of this trade-off for investors are therefore:

1) Any reduction in ordinary income occurs within your highest marginal tax bracket, maximizing the immediate tax benefit.

2) The tax savings created by a TLH can remain invested in markets (and hopefully compound in value) for longer than they would have otherwise.

Example:

Considering only Federal taxation, an investor in the 24% marginal ordinary income tax bracket (15% capital gains tax bracket) has two positions in a taxable account that are considered being sold.

- **Investment A** has a $20,000 long-term capital gain
- **Investment B** has a $25,000 long-term capital loss

If the investor just sold Investment A, they would owe $3,000 ($20,000 x 15% = $3,000) in Federal capital gains tax. However, by also selling Investment B, they can offset the gains from Investment A. This results in an immediate $3,000 tax savings. Of the remaining $5,000 in losses, $3,000 can be used to reduce ordinary income resulting in $720 ($3,000 x 24% = $720) of tax savings. Lastly, the remaining $2,000 in losses can be used to reduce taxable income in future years.

For our clients with taxable accounts, we are constantly on the lookout for TLH opportunities, even during good market environments as not every investment will perform positively when markets are generally going up.

If you have any questions or would like to discuss TLH strategies in more detail, please contact your O'Brien Advisor.

Tim Pilczak, CFP®, EA
Senior Advisor

LIFE EVENTS

of employees at O'Brien

1. On May 1, **Alena** and her partner Shelley hosted an epic handfasting to celebrate their love. After two and a half years of intense planning, the day was filled with a meaningful ceremony, traditional May pole, and much merriment at Glen Magna in Danvers, MA.
2. In May, **Pat** proposed to his partner, Haley on a romantic sunrise beach walk in Maine. They also closed on their first condo in Boston, MA after many months and many offers. They spend as much time as possible on the patio.
3. On August 1, **Joel** joined O'Brien as our newest Technology & Operations Specialist. Joel has a unique skillset in that he brings many years of experience working on both the operations and client service sides of the financial industry. Born in Boston, he's a big sports fan and enjoys time with his family and dogs in Andover.
4. On September 1, **Jill** and **Lis** both sent their sons to begin their college careers. They wish their sons success as they expand their horizons, build their lives as young adults, and pursue their educational interests.
5. On September 26, **Lis** rescued a new mixed-breed dog named Max. He is a wonderful new addition to the family and has different colored eyes.
6. On October 1, **Tim** and his partner, Emily celebrated their love with a long-awaited wedding ceremony. Despite challenges including the cancellation of a tropical destination wedding due to covid, an ice storm, and then Hurricane Ian – they had a wonderful celebration with friends and family in Falmouth, MA.

ESG PERFORMANCE, BEYOND COMPANY SCORES

By Lauren Higgins & Jonathan Smith

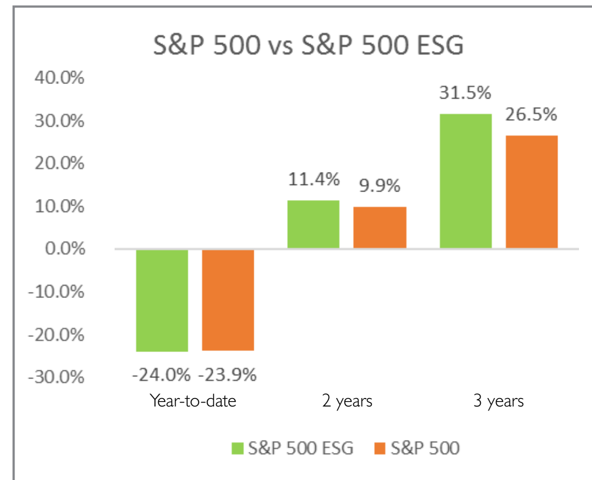
When considering the trade-offs between ESG investing and non-ESG investing, a common misconception is that investors must accept lower returns in exchange for the sustainable focus. Concurrent to that concern is the fact that ESG scores – which often dictate which companies are considered ESG or not – are too subjective and too broad to truly measure the overall impact of a specific company's corporate behavior.

These are reasonable concerns. However, research has shown that broad benchmarks of ESG and non-ESG investments have tracked similarly over time. Moreover, active management, such as O'Brien's proprietary approach to ESG investment selection, allows investors to look beyond headline scores to better understand a company's overall impact.

A Closer Look at Relative Performance of ESG and Traditional Benchmarks: Let's compare the S&P 500 index, composed of 500 of the largest companies in the U.S., with its ESG equivalent, the S&P 500 ESG index, as an example. The S&P 500 ESG index starts with those same 500 firms and narrows the universe using a scoring method based on quantitative and qualitative screens. Comparing these two indices over multiple time periods allows us to gauge the comparative returns of "higher" ESG scoring companies against a broader universe.

As shown in Figure 1, the ESG portfolio (green bar), has performed in-line with the broader benchmark in 2022 – despite not being exposed to fossil fuel companies that have outperformed significantly this year. And over a longer – and more positive – time horizon, such as the past three years, ESG has actually outperformed the broader benchmark.

Figure I: ESG Investing's Competative Performance



While past performance is not an indicator of future performance, it can provide helpful context. **Source:** Morningstar Direct, O'Brien Wealth Partners, as of 9/30/2022.

A Closer Look at ESG Scores: Headline scores for individual companies vary from one data provider to the next and often fail to tell the whole story. For example, Ethos ESG, one such provider, gave the pharmaceutical company Bayer an overall "D" rating, scoring the company higher for its work on "disease eradication" but scoring it poorly due to its treatment of animals. Another provider, MSCI, rated Bayer an "A", their third highest ranking, citing their strong "Product Safety and Quality", while still scoring them poorly on ratings such as "Toxic Emissions and Waste". Depending on an investor's objectives and values, as well as the source they use, simply using quantitative scoring in their research could lead to adding companies to their portfolio that may or may not align with their overall ESG investing preferences.

When considering the inclusion of an ESG strategy into our portfolio, O'Brien looks at other criteria beyond these top-level grades. We look for managers who are strong ESG advocates that look to make tangible differences in how the companies they invest in view sustainable goals and business risks. And while the quantitative aspects of ESG are important, qualitative aspects – such as ongoing conversations with management, proxy voting, and sustainability-focused research – are equally critical to determining whether a manager is investing with ESG in mind. For many companies, becoming more sustainable is also still a work in progress, so we leverage both quantitative scores and qualitative conversations to make an assessment on their appropriateness in client portfolios.

We welcome the opportunity to share more with you about those conversations.

Lauren Higgins, CFP®, CIMA®

Senior Advisor

Principal

Jonathan Smith

Investment Research Analyst

WHAT DO RISING INTEREST RATES MEAN FOR POTENTIAL HOMEBUYERS?

By Pat Murray

In November, the Federal Reserve (Fed) raised its benchmark interest rate to 4%, up from 0.25% at the beginning of the year, further signaling their commitment to curbing inflation rates the United States has not seen in 40 years. But what exactly does it mean to raise interest rates and, more importantly, how does that affect potential homebuyers?

First, it is important to understand how interest rates work. An interest rate is what you pay to a lender to borrow money. Think mortgages, credit cards, student loans, car loans, etc. A lender wants to profit from a borrower and they do that by charging interest. The higher the interest rate, the more you pay to borrow.

The Fed is responsible for controlling the country's money supply and one of the main ways it does that is by controlling interest rates. When prices are rising rapidly, the Fed raises rates to increase borrowing costs for consumers and businesses in an effort to bring demand more in line with supply, thereby cooling inflation. While combating inflation may be a positive, there are trickle down effects on the consumer that may not be.

Higher interest rates burden borrowers, and potential homebuyers are amongst the most significantly affected. Mortgage rates have been on the rise all year, up almost four percentage points since January, and they could climb even further before the Fed is done raising rates. Rising rates increase the size of both your principal and interest payments, and therefore affect how much home you can buy. Take the example below:

Purchase Price	Down Payment (%)	Loan Amount ($)	Mortgage Rate	Mortgage Payment (P/I)*	Total Interest Paid
$600,000.00	20%	$480,000.00	3.20%	$2,075.84	$267,302.74
$600,000.00	20%	$480,000.00	6.70%	$3,097.33	$635,040.35
Purchase Price	**Down Payment (%)**	**Loan Amount**	**Mortgage Rate**	**Mortgage Payment (P/I)***	**Total Interest Paid**
$400,000.00	20%	$320,000.00	6.70%	$2,064.89	$423,360.23

*These calculations do not include property taxes or homeowners insurance, and assume no PMI.
Source: O'Brien Wealth Partners, as of 10/3/22.

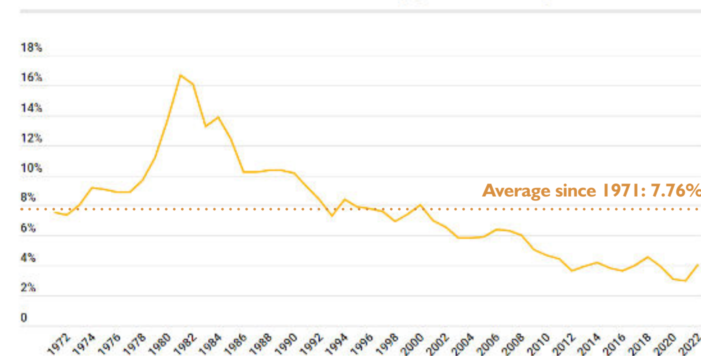
- If you purchased a $600,000 home in January with 20% down and a 3.20% 30-year fixed rate, your monthly principal and interest payment would total $2,075 and you would pay $267,303 in interest over the 30-year term.

- If you purchased the same $600,000 home in November with 20% down and a 6.70% 30-year fixed rate, your monthly principal and interest payment would total $3,097 and you would pay $635,040.35 in interest over the same 30-year term. That is $1,000/month more in principal and interest payments and more than two times the total interest paid!

- What is even more eye opening is that if you wanted to maintain the same $2,075 monthly payment, assuming the higher 6.70% mortgage rate and a 20% down payment, your $600,000 home budget decreases to $400,000.

While it may be unnerving for potential homebuyers to see interest rates increase, mortgage rates are still below average historically, as show in the below chart from Freddie Mac.

Historical Interest Rates for 30-Year Fixed-Rate Mortgages: Annual Averages, 1971-2022



Source: Historical Data: Freddie Mac PMMS. ©TheMortgageReports.com, O'Brien Wealth Partners, as of 11/23/22.

If higher rates have not pushed a possible new home into unaffordable territory and homeownership is still your goal, you may look to lock in a long-term rate now in the case rates increase even further over the coming months. If rates decrease soon or anytime in the future, you can always refinance. All that said, you should not rush into a large purchase that may not be right for you simply because interest rates may increase further. Buying a home is not only an important financial decision, but a lifestyle decision you may live with for a long time. If you would like to discuss a new home purchase and whether it makes sense for you, please reach out to your advisor.

Patrick Murray, CFP®

Associate Advisor

TECHNOLOGY, AGING, AND YOUR PORTFOLIO

By Austin Litvak

One hundred years ago, the average life expectancy in the U.S. was around 55 years[1]. In 2021, the average life expectancy had risen to 76 years, an increase of almost 40%[2]. The average 65-year-old today can expect to live an additional 18 years, or well into their early 80s.

Medical and quality of life improvements have dramatically extended how long we can expect to live. And technological advancements have allowed growing older to become a significantly more vibrant experience as well via a new economy of connections.

A recent report published on this topic by the Massachusetts Institute of Technology's AgeLab[3] and Hartford Funds[4] points to five specific ways these connections will increasingly touch important aspects of our lives as we age:

Technology-Driven Transportation Will Help Us Stay Mobile

The development of backup cameras, lane-departure warning systems and other automation features allow people to drive longer. And ride-hailing services such as Uber and Lyft also allow us to stay mobile once driving is no longer an option.

It Will Be Easier to Work and Earn Income Longer

Technology can provide greater flexibility to work remotely, help develop additional skillsets through online education platforms (such as Coursera and YouTube) and provide opportunities for additional income via gig work (such as Fiverr and Uber).

We Will Be Better Able to Maintain Our Social Network as We Age

Technology improves the ability to maintain communication with loved ones and friends via promoting face-to-face conversations over Zoom, FaceTime, and in retirement communities using Connected Living programs.

Connected Homes and Apps Can Promote Aging in Place

Home improvement and maintenance websites such as Angi and Home Advisor, and home delivery services such as Amazon, allow people to remain in their homes longer than they have previously.

Technology Will Monitor Our Health at Home

Wearable technology, such as Fitbits, can help monitor health. Telehealth services, such as Doctor On Demand, can help diagnose issues that arise. And caregiving services, such as CaringBridge, can provide qualified and pre-screened assistance. All from the comfort of our homes.

Incidentally, some of these connections also bring with them the potential to help reduce the impact of inflation for those on fixed budgets. For example, AAA estimates that it costs roughly $10,500 per year to own and drive a medium-sized sedan today[5]. It would take a lot of Uber rides to exceed that annual cost.

These connections will increasingly drive our economy and society and we believe clients should therefore be invested in them.

Yet many of the companies behind these technological advancements have underperformed the broader market over the past year. But that underperformance largely reflects today's rapidly changing interest rate environment, rather than a significant shift in expectations of the role these companies will play in our future.

When we invest in companies, we are paying to share in the cash flows that company generates both today and in the future. Investors (or analysts working for the funds we invest in), in turn, estimate how much those future cash flows are worth today using a valuation technique called discounted cash flow (DCF) analysis.

DCF analysis takes those estimated future cash flows and divides them by current interest rates to arrive at an estimated value for that company today. Usually, interest rates move gradually and therefore they have little impact on valuations on a day-to-day basis. But the past year has seen a historic surge in interest rates. This surge means that, even though the size of those future cash flows projections has not materially changed for many companies, the amount investors are willing to pay for them in today's higher interest rate environment has been much more adversely impacted than typically occurs.

The magnitude of the impact from this interest rate surge on a given company is heavily driven by whether they are expected to see the bulk of their cash flow generating power today or in the future. Companies that fall into the former category are generally considered to be "value" stocks and have been less impacted, while those that fall into the latter (such as the technology companies discussed earlier) are generally considered to be "growth" stocks and have been more impacted.

The chart below illustrates this point. The relative performance of growth and value stocks (the green line) has moved inversely to the direction of interest rates (the orange line). Falling interest rates correlate to growth stocks outperforming value stocks and vice versa.

MSCI Growth vs Value and 10-Year Yields

Source: Bloomberg Finance, LP, O'Brien Wealth Partners, as of 9/30/22.

To the extent rapid interest rate movements continue, this rapid shifting in relative performance may also persist. But longer-term, we believe the Federal Reserve will put the inflation genie back in the bottle and interest rates will likely be again driven lower by slower economic growth due to our aging population. In such an environment, the value of companies that are better able to grow their cash flows – such as tech and growth stocks – should once again benefit.

1 Life expectancy from birth in the United States. Source: Statista.com, 2022.

2 Provisional Life Expectancy Estimates for 2021. Source: CDC.gov, August 2022.

3 AgeLab is a multidisciplinary research program that seeks to understand longevity challenges and improve the quality of life for older people and those who care for them.

4 https://www.hartfordfunds.com/dam/en/docs/pub/prospectingmaterials/Whitepapers/MAI054.pdf

5 Your Driving Costs, Statistic is based on driving 15,000 miles per year as of 2021. Source: AAA.

Austin Litvak,
CFA, CFP®, CBE®, CAIA

Director of Investment Research

TAKE A CLOSER LOOK...

THE NORTHEASTERN UNIVERSITY CO-OP PROGRAM

By Addy Magee

What is a co-op program?

Co-op (or, cooperative education) is an experiential learning program enabling students to explore potential career paths while alternating semesters of academic study with 6-month periods of full-time, paid employment.

At O'Brien Wealth Partners, the co-op program introduces students to private wealth management. The student works closely with advisors, research analysts, and client solutions specialists. They are assigned daily tasks and projects to gain experience with administrative work, client service, investment research, and financial planning. At O'Brien, every co-op experience is personalized to the student's skill set, interests, and career goals.

What are the benefits of the co-op program?

To Students: The opportunity to work in an environment to assist the O'Brien mission: Strive to grow our clients' wealth, promote and guide financial wellness, and provide exceptional client experience. Students participate as a full team member and can make a difference in the business and the lives of our clients. Students receive access to financial professionals, real-life experiences, and possibly future employment opportunities.

To O'Brien: Our goal is to integrate the co-op student as a full member of our team. We understand they are here to learn, and we strive to supply them with relevant and helpful experience towards their educational and life goals. They also provide us with fresh perspective, new ideas, and possibly future full-time team members.

O'Brien's history with the Northeastern Co-op Program

O'Brien first became involved with the Northeastern co-op program 6 years ago. Since then, we have had 9 Northeastern co-op students, of whom two are now full-time employees.

Here are their experiences:

***Jonathan Smith**, Investment Research Analyst & Associate Advisor:* "O'Brien's co-op experience allowed me to get hands-on experience that is not available at the larger firms I interned with. Being able to join conversations with fund managers, our trading and investment teams, and other industry experts, as well as take a leadership role in some of these meetings, was a step above my other co-op experiences. O'Brien gives you the opportunity to showcase your strengths and prove why they should consider you as a full-time hire."

***Addy Magee**, Client Solutions Specialist:* "The co-op experience at O'Brien allowed me to become an integrated and valued member of the firm, as a student. I quickly realized that O'Brien was a place where I could learn, grow, and foster my career. After my co-op ended, I returned to Northeastern for my final semester, graduated and returned to O'Brien as a full-time employee. I was able to jump right back in and maintain the knowledge, skills, and relationships I built during my co-op."

Addy Magee

Client Solutions Specialist

O'Brien WEALTH PARTNERS

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WE ARE MOVING!

By Lis Zimmerman

As some of you may remember, we began at One Waterhouse Street in Cambridge in 1986 and moved to our first formal office building at 124 Mt. Auburn Street in Cambridge in the early 1990s. Our next step was to our current location at 177 Huntington Ave. in Boston in 2015, and in January we will be moving to our new location at 51 Sawyer Road in Waltham!

A Few of the Reasons You'll Love Our New Space:

Access: Since we moved to 177 Huntington, the handicap access has been sub-par, over 300 parking spots were claimed by new construction, and the commute has proven inconvenient for many clients. Our new space is easy to get to by car or commuter rail and has lots of convenient parking.

Space: Our plan is to make a place that fosters movement, creativity, and collaboration. We will have lots of private space for meetings with you, but also more collaboration space for our team to work together, which is how we do our best work.

View: While we lose our beautiful view of Boston's South End, we gain a lot more greenery. Our sixth-floor office space overlooks beautiful Brandeis University's rolling hills and observatory.

We hope you will enjoy our new space as much as we plan to, and we look forward to hosting meetings and events in the near future.

The new office of O'Brien Wealth Partners.

Lis M. Zimmerman, CFP®, CASL®, CRPC®

Managing Director

Principal

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7. Industry registrations, designations, recognitions or awards should not be construed as an endorsement or a recommendation to retain the Adviser by the granting entity or any regulatory authority.
8. Any ESG-based investments are made through third-party managers and their respective strategies. O'Brien does not manage the third-party strategies and does not have any control over the underlying investments chosen by the third-party managers. O'Brien, based on reasonable due diligence and representations, relies on the screening processes of third-party managers.

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