MOSAIC
FINANCIAL PARTNERS, INC.
formerly Boone Financial Advisors

November 2005

Effective Financial Strategies

Tax Planning Ideas to Consider Before Year End

November and December are key months in which to focus on minimizing your income tax liability. Since each person's tax situation is different, *we recommend that you consult with your tax advisor before taking any action.*

If you are in the top income tax bracket and you expect to be in the same or lower bracket next year, you might consider the following:

Tax Payments – Prepay your 2005 state income tax liability by year end. You can do this by increasing your withholding (if you are an employee) or by increasing your fourth quarter estimated State tax payment. You also may wish to consider prepaying property taxes that are due in the first quarter of next year. **An important note:** Many taxpayers are now subject to the Alternative Minimum Tax (AMT). This can turn traditional tax planning on its head and requires careful consultation with your tax advisor. For example, if you are subject to the AMT, you may want to defer rather than accelerate state income and property tax payments.

Charitable Gifts- Accelerate charitable gifts through the use of a charitable Donor-Advised Fund. Donor-advised funds allow you to donate *appreciated* securities to a charitable account that you control. You receive a tax deduction for the fair market value of the securities in the year the transfer is made. However, donations you make from the fund to the charities of your choice can be made whenever you decide.

College Savings - Shifting assets reserved for college education to your children or grandchildren through a College Savings Plan (a.k.a. Sec-

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Identity Theft – Watch Out!

Identity theft is the fastest growing crime in our nation today. Below are some of the current known scams. Be careful!

Credit Card Alert Scams: Should you get a phone call from VISA or MasterCard trying to confirm unusual spending activity and that person asks for the code on the back of your credit card DO NOT give that number out. They almost certainly are not from the company. Contact your credit card company immediately.

Account Verification or "Phisher" Scams: Many scammers have established domain names that are very similar to those of legitimate companies. Scam victims receive an "official" e-mail asking them to log on to a web site to verify their account or personal information. DO NOT fall for this scam. Prior to releasing any information, check with the company directly to see if the e-mail is legitimate. In virtually all cases, you will be advised that the e-mail is a scam.

Sign-in Rosters: Some companies and governmental agencies (state-sponsored programs, colleges, the EDD) may ask you to enter your name and SSN on a sign-in roster. Never post your SSN on any public document. Identity thieves can easily access these rosters to copy and collect personal identifying information. If you encounter a sign-in roster requesting confidential information, rather than provide your SSN, instead, write "will provide in person."

Canadian/Netherlands Lottery: Unless you entered a lottery or bought a ticket to win a prize, if you see the words "you have won" be very cautious. These are usually pure scams. Originating in the Netherlands and many other foreign countries, these scams can cost the gulli-

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tion 529 Plan). Investment earnings on assets that are placed in these Plans are generally exempt from federal and state income taxes— provided that the funds are used for qualified college expenses. *One caveat: Congress still needs to address whether this tax benefit will be extended beyond the 2010 tax year.*

If you are self-employed, you should consider:

Setting up a retirement plan for your business. There are several plans that you can choose from that vary in terms of annual funding requirements and maximum contributions. While some plans may need to be established by year end, actual funding can be deferred into 2006 even though the deduction is still claimed on your 2005 return.

Accelerating expenditures for furniture, computers and other equipment for your business. The current tax law allows you to deduct up to $102,000 per year for purchases of certain business-related property. Keep in mind that this deduction is limited to your taxable trade or business income.

If you have an IRA and your current year's adjusted gross income will be less than $100,000, you may want to speak with your CPA to assess whether it makes sense for you to consider a Roth-IRA conversion. Even if you don't normally fall into the "under $100,000 of income" category, one-time events (i.e. business losses, rental losses or capital losses) may reduce your income to an unusually low level. If so, you may be a candidate for a Roth-IRA conversion.

In a conversion, some or all of your IRA is transferred to a Roth-IRA. Taxes are paid at ordinary income tax rates on the amount that is transferred. For conversions that we've been involved in, the federal tax rate paid has typically been between 0 and 15%, so the upfront income tax cost has been quite low. However, since earnings on Roth-IRA assets should never be taxed, there is a huge long-term benefit of the conversion—for a small upfront tax payment, an individual can exempt thousands and thousands of dollars of future earnings from income tax.

Along with the planning items discussed above, keep in mind that we are always looking for ways to minimize our taxable clients' income tax liability. On the investment management side, specific actions that we take include:

- Examining the tax efficiency of each new investment with a focus on its potential after-tax return relative to competing investment alternatives.
- Avoiding selling investments that have large built-in gains unless necessary to maintain the portfolio's asset allocation objective.
- When liquidating individual securities from a taxable portfolio, we will typically first sell those securities with any losses, followed by securities in order of their percentage gain, from lowest to highest.
- Selling positions with built-in capital losses to offset realized gains.
- Considering the benefits and risks of holding an investment that we want to sell until it qualifies for long-term capital gain treatment.
- Placing less tax efficient investments in tax-deferred accounts (i.e. IRAs and other retirement accounts) when possible.

We make every attempt to align our actions with our clients' goals. One of the ways that we can do this is by assisting you in maximizing your after-tax returns. We hope you find these tax tips helpful in working toward your long-term investment goals.

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ble thousands of dollars. The best response to these "award announcements" is no response at all.

"Free" Credit Report Emails: Almost all of the "free credit report" emails are scams. These are either attempts to discover your social security number or stick you with a bill for service later on. Consumers are entitled to a free credit report annually. If you'd like to get a copy of your credit report, visit: *www.AnnualCreditReport.com*.

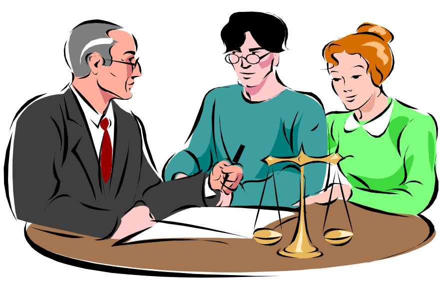
"You have won a free gift" Scams: You may receive a phone call or email notifying you of a free gift or prize. "All you need to do is pay for shipping and handling." Often they'll send a cheap gift in exchange for finding a "live" phone number or email address. Responding can result in hundreds of spams or telemarketing calls.

Job Advertisement Scams: Recently, there have been a number of scams involving Internet job websites (such as *Monster.com*) or newspaper "help wanted" ads. Identity thieves use these scams to collect SSNs and other personal information. Never provide your SSN to anyone unless you've authenticated both the company and the person asking for the information. Contact the company directly using a phone number found on the company website or a phone book listing. Or check out the company with the Better Business Bureau. Some scam tip-offs: E-mail addresses that don't include the company name in the domain section, mailing addresses or fax numbers in cities that differ from corporate headquarters.

Time to Revisit Your Trust? Five Estate Planning Pitfalls for Married Couples

Sure you've set-up your trust, but when was the last time you reviewed your document? Proper estate planning can eliminate or reduce estate taxes, help your loved ones understand your wishes at your death, allow your estate to avoid probate, and help facilitate the distribution of your assets after your death. Often, after an estate plan is created, the documents are laid to rest in a safe deposit box or file drawer—and come out again only when a party dies or a conflict arises. Sound planning dictates that you should periodically review and update your estate plan to ensure that it is effective and free of problems that can arise from changes in law, planning oversights, or changes in your circumstances. The following is a list of some estate planning pitfalls that can be avoided by periodically reviewing your documents:

Unfunded Trust: Once your trust has been established, it must be "funded." This involves changing the title on your investment accounts and real property (such as your home) into the name of the trust. Generally, only assets that are owned by your trust can be distributed according to the trust's directives. This means your assets must be properly titled. We recommend periodically reviewing the title on each of your assets to ensure it has been properly updated and that any new assets have also been titled in the name of the trust.



Having an Estate Plan Which Does Not Qualify for the Unlimited Marital Deduction: Some older estate plans may result in a substantial federal estate tax liability at the death of the first spouse to die. Under many pre-1982 estate plans, the "unlimited tax-free transfer" to a surviving spouse is not provided for. This can even include some plans which use trusts to reduce estate taxes. Changes in law are more frequent with regard to estate, gift, and income taxes. We recommend reviewing your Trust document every five years or so to make sure your documents still reflect current laws and your circumstances.

It's a good idea to explain your estate plan to your loved ones, helping to avoid surprises or hurt feelings.

Incorrect Beneficiary Listed on Beneficiary Designation Forms: Retirement account assets, annuities, and insurance policies are transferred at death by beneficiary designation, not by one's will or trust. There can be complications associated with beneficiary designations. For example, with retirement plans, if plan assets pass to anyone other than the surviving spouse of the plan participant, care must be taken to see that rules created under the Retirement Equity Act of 1984 are not violated. Without proper documentation, the spouse has well-protected rights to retirement plan assets. Also, since retirement plan assets, annuities, and insurance policies pass by beneficiary designation, if you wish to change your beneficiaries for these assets, you must remember to change your beneficiary designation not just your will or trust. We recommend reviewing your beneficiary designations regularly.

Retirement account assets, annuities, and insurance policies are transferred at death by beneficiary designation form, not by one's will or trust.

Spouse's and Children's Ignorance of Estate Affairs: Failure to provide information about the existence or location of assets may seriously disrupt the process of garnering the estate assets and properly managing them. We recommend compiling an inventory of all your financial and estate related documents and their location. It's also a good idea to explain your plan to your loved ones, helping to avoid surprises or hurt feelings.

Distributions to Children at Early Ages: An estate built with great care and effort may be wasted, with little or no benefit to the next generation, if property is left outright to a child who has no experience, interest, or ability in managing the assets. Early distributions may also have an adverse effect on education planning. If you plan to transfer assets to young children through your trust, we recommend including provisions for the ongoing management of estate assets and consider distributing the estate's assets over time.

If you would like to review your documents or have questions about your current plan, please call us and we'll be happy to schedule a meeting.

Around the Office ...

***At The Podium*—**In August, **Kevin Gahagan** spoke at the FPA's Far West Round Up conference on the topic, *Risk Profiling – Do You Really Understand Your Client's Risk Tolerance?* In September, **Kevin** was a featured guest on the radio program, Financial Planning Perspectives where they discussed "Are You Getting the Most from Your 401(k)?" In October, **Kevin** participated in a panel for the local NAPFA chapter discussing "Outsourcing and Other Strategies for Successful Planning Firms." In November **Sabrina Lowell** presented an interactive Case Study to a group of UC Berkeley students in their final Practicum class. Also in November, **Norm Boone** and **Linda Lubitz** spoke on Prudent Investment practices to the Colorado CPA Society and to the Financial Advisor Symposium in Chicago. **Norm** also spoke on Fiduciary responsibilities as part of an ongoing seminar series sponsored by the Oakland law firm Fitzgerald, Abbott & Beardsley, LLP

***Education A Continuing Affair*—**In September, **Norm, Linda, Kevin, Holly Gillian Kindel** and **Sabrina** all attended the Financial Planning Association's national conference in San Diego. The 3-day conference provided extensive continuing education offerings in all of the planning disciplines. Also in September, **David Lawrence** completed a graduate course in estate planning. In November **Juliet Wisdom** attended the National Advisors Trust Company "Operations Conference" in Kansas City.

Accomplishments—**Alda Ng** has been promoted to internal firm services administrative assistant. **Chenda Sar** has been hired as our new receptionist. She looks forward to speaking with you on the phone and to meeting you in person when you visit. In September **Holly** published an article about Ethical Wills, "Leaving a Legacy" in Research Magazine. See our website to read it. **Holly** also completed her final course and was awarded her Chartered Life Underwriter (CLU®) designation (congratulation Holly!!!). **Kevin** recently completed the coursework and exam earning his Certified Investment Management Analyst (CIMA) designation. **Susan Morse** just returned from almost three weeks in South America where she visited Inca ruins, hiked, rode horses, and canoed in Patagonia.

Giving Back to the Community —We're very proud to announce that **Holly** was recently named the Earned Asset Resources Network (EARN) "Volunteer of the Year." **Holly and Sabrina** both served as mentors to UC Berkeley students as they provided financial planning to EARN alumni. **Juliet** is currently coaching runners who want to complete the Miami marathon on July 29th, 2006 while raising money for the San Francisco AIDS Foundation. Juliet ran in the US ½ Marathon in SF on November 6th. In August **Norm** became the newest member of the board of trustees of Saybrook Institute, an accredited graduate school granting degrees in the humanistic tradition in psychology and the social sciences

Mosaic Events—On September 8th, we hosted an Open House at our 140 Geary Street office. We were excited to have such a wonderful turn out of clients and friends to help us celebrate our new name and location. Thank you to all of you who were able to attend and who helped make this event special! Stay tuned for an invitation to a client appreciation event we are planning for the first quarter 2006. We'd love to see you there!

Family Matters—Norm's daughter Nani successfully finished her freshman year at Vanderbilt University last June but decided not to return to the South. She's now at Santa Monica College, expecting to enter UCLA next year. Her brother Andrew is finishing up his junior year at USC. He enjoyed an internship with the LA Dodgers last summer.

Employee Spotlight — Janette Rodriguez

We're happy to welcome one of our newest staff members, Janette Rodriguez. Originally from Albuquerque, New Mexico, Janette relocated to the Bay Area in 1993. She came on a two week vacation to visit her younger sister at Mills College and fell in love with the area. As Janette says, "San Francisco is really my home but my mom hates it when I say that!"

Janette attended the University of New Mexico (go Lobos!) where she studied Business Administration. She brings to Mosaic more than ten years of client services experience—in both the financial services and hospitality industries. Just prior to joining Mosaic, Janette was with a financial printing company and worked with mutual fund clients.

Janette is a very active member of GLIDE Memorial Church. A one time member of GLIDE's famous choir, Janette is now content to attend and enjoy the weekly services. She also contributes her volunteer time to help with GLIDE's program to feed the homeless (a whopping one million are served annually).

In her free time, Janette loves to spoil her 2 year old dachshund, Scooty. She also enjoys reading crime novels, traveling, dancing, a good merlot and taking in the sun!

A Comment on Hedge Funds

Despite mixed performance in the recent years and a number of highly publicized failures, the hedge fund industry has continued to attract substantial amounts of new capital. Hedge fund assets grew by 27% over the year ending May 2005, and now total over $1 trillion in value. Hedge funds are typically run by managers who have unique capabilities and who seek to take advantage of special opportunities in the markets. Investment minimums often begin at $1 million— though products with lower minimums are available.

We think there are several reasons to be cautious about these investments. First and foremost, given all of the attention these vehicles have received, more managers and more money are now entering the specialized arena in which hedge funds operate. This has contributed to a dilution of talent and deterioration in investment returns.

Second, while there have been some spectacular successes among hedge funds, the industry track record is suspect. Hedge funds are not required to report performance results as traditional mutual funds are. When poor performance occurs, many funds don't report. Funds that have failed are also left out of industry reporting.

Third, there is virtually no transparency in the industry. Investors are not informed about fund investments. As a result, it's very difficult to monitor a hedge fund

Fourth, investment liquidity is extremely limited. While exceptions exist, it is very common for hedge funds to require money to be committed for several years. This places significant limits on an investor's flexibility.

Finally, almost all hedge funds carry hefty management and performance fees— well above the most expensive mutual funds. To add further injury, today, many retail investors access hedge funds through a "funds of funds". While offering diversification advantages, these aggregated funds pile their own fees on top of those being charged by the hedge funds—this becomes very expensive.

Hedge funds can offer some intriguing investment concepts— but they come with a host of potential problems. Given their substantial costs, lack of transparency, and limited liquidity, we believe investors need to exercise extreme caution before considering these investments.

Protecting Valuable Jewelry

For those with valuable jewelry, acquiring appropriate insurance coverage is a necessity. Typically referred to as a "Scheduled Property Rider" on your homeowners insurance policy, the rider lists each piece of covered jewelry with a description and valuation for each. By listing and insuring each piece, you don't have to worry about an accidental loss, a chipped stone or stolen item. You can also help protect your jewelry by following these simple tips to properly care for your valuables:

Preventing Damage Always separate jewelry items by storing them in soft cloth in a jewelry box or a safe deposit box. Obtain fabric pouches from a jeweler or retailer. Make sure you leave enough space for each item in a jewelry box or storage area. Twisting and bending of semi-rigid chains and pieces can cause permanent damage.

Protecting from Loss For storing jewelry, consider a false-bottom container—empty containers that appear to be common household items like food cans. Keep them in a practical place and make sure they are not mistakenly thrown away. Never keep jewelry in the pockets of clothing - often it is easily forgotten and unknowingly thrown in the washing machine or taken to the dry cleaners.

Guarding Against Theft It's best not to keep your most precious jewelry in your bedroom or a jewelry box. Statistics show that bedrooms are the first place burglars enter after breaking into a home. For optimum security, store valuable jewelry in a safe deposit box or secure home safe. When traveling, never pack your jewelry in your luggage and always use a hotel vault or security vault when you arrive at your destination.

Caring for Specific Pieces

- **Watches** - Replace broken or scratched crystals immediately - even hairline cracks can allow dust or moisture into the mechanism, threatening its accuracy. Check your watch clasp periodically to prevent accidental loss.
- **Diamonds** - Even though a diamond is the hardest transparent substance known to man, it's still important to be careful. When cleaning the diamond, use mild detergent or a sudsy ammonia bath. Chlorine bleach can pit and discolor the mounting. Have your prongs and mountings checked and your stone professionally cleaned annually.
- **Pearls** - Pearls need special care since they can easily dry out. Perfume, lotions, cosmetics and hairspray can damage them. Clean and restring your pearls regularly to prevent the strings from becoming weakened or soiled. Wash pearls with mild soap and water after each wearing.
- **Gemstones** - Have the prongs and mountings checked annually. Each gemstone is different, so check with your jeweler for specific care and cleaning procedures.

Financial Planning & Investment Management

Catch us on the Web!
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In This Issue:

Thoughts to Live By

"A good heart is better than all the heads in the world." -- Edward G. Bulwer-Lytton

"Men show their character in nothing more clearly than what they think laughable." -- Johann Wolfgang von Goethe

"I know the price of success: dedication, hard work and an unremitting devotion to the things you want to see happen." -- Frank Lloyd Wright

"A dream is your creative vision for your life in the future." -- Denis Waitley

"If you don't like something, change it. If you can't change it, change your attitude." -- Maya Angelou