MOSAIC
FINANCIAL PARTNERS, INC.
formerly Boone Financial Advisors

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Effective Financial Strategies

# Avoiding Capital Gain Distributions

As you review your December monthly statements you may notice some large year end capital gain distributions from your mutual funds. Even if you did not sell any of your fund shares, these distributions must be reported on Schedule D of your tax return as taxable capital gains.

Mutual funds do not pay income taxes themselves but instead are required to distribute any taxable income and/or net realized capital gains to their shareholders (who must report this income on their tax returns). Mutual funds realize capital gains when they sell a security that has gone up in value and replace it with another. This "turnover" tends to be highest in actively managed mutual funds which typically distribute more taxable capital gains than "index" or passively managed funds. Because most index funds basically "buy and hold" all of the stocks in an index, they turnover less frequently and thus avoid realizing as much capital gains each year.

However, index funds may still need to distribute capital gains under certain circumstances. For example, if a stock is dropped from the Standard & Poor's 500 Index, then any mutual fund that tracks that index would have to sell its shares—and this may force them to realize capital gains. Additionally, index funds may realize gains if large shareholder withdrawals force the fund to sell securities to raise cash. So, while index funds are more tax efficient than actively managed funds, shareholders can still be hit with unexpected tax surprises.

One way to avoid even these distributions is

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# Upcoming Deadline — Medicare D

For those considering signing up for one of the new Medicare D prescription plans, the final day to do so, **May 15th, 2006**, is fast approaching. AARP has just released some useful guidelines. Whether for yourself or a parent, an older relative or friend, we hope the following will help you as you sort through this sometimes confusing information and make your decision.

**Narrow the field.** There are hundreds of Part D plans, but beneficiaries will be able to choose only from those that are offered in their part of the country. To focus in on the best plan, look at the three C's: cost, coverage and convenience. Be careful to isolate the total cost of the plan — not just the monthly premium. Evaluate all costs. Add up the premium, deductible and co-pay amounts *plus* the expected outlays that might be needed to fill any gaps in coverage. Then compare the plans using that number.

Another key factor in the real cost of any plan is its "formulary"—the list of the drugs the plan covers. Examine the plan to make sure that the drugs needed by you or a given beneficiary are on the formulary. Also, make sure that drugstores that honor the plan will be convenient or, if you prefer mail order, make sure it is an option.

**Price the Medicine.** The plan's list of medicines should be reviewed carefully. Ask about tiered formularies that require higher co-pays for certain drugs— usually the more expensive ones. Also, a good thing to

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through the use of Exchange Traded Funds (ETFs). ETFs are index funds that trade on the stock exchange like a stock. Buyers and sellers trade among themselves and thus the portfolio manager does not need to sell securities to raise cash for withdrawals. This avoids capital gain distributions caused by shareholder redemptions.

ETF shares are "created" and "redeemed" only in large blocks by institutional investors who use computers to try to take advantage of small differences that arise between the price the ETF is trading for on the stock exchange and the theoretical per share value based on the underlying securities in the fund. For example, if an institutional investor calculates that the ETF is trading for less than the value of the stocks in the fund, the institution would buy ETF shares on the exchange, submit them to the fund and request the actual stocks in exchange. The institutional investor would then sell the individual securities and make a small profit on the difference in value. In complying with this request, the ETF portfolio manager, can give the institutional investor shares of stock that have a low cost basis or shares that have been dropped from the underlying index (and would otherwise have to be sold). Since the fund did not actually sell securities, but merely exchanged them for the ETF shares in return, no capital gain was realized and taxable distributions were avoided. This "arbitrage" process also serves to ensure that the price of the ETF is usually pretty close to the true value of the underlying securities.

The primary ETF issuer that we use is Barclays Global Investors who distribute the "iShares" series of ETFs. They have an excellent record of avoiding capital gain distributions. In fact, for the last four years, NONE of their 101 different ETFs has paid a capital gain distribution. Very few traditional mutual fund families can claim to be this tax efficient.

David Cowles, CPA, CFP®

Director of Investments

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remember is that one's doctor can appeal if a specific drug is needed but not covered.

**Save the Mail.** For those receiving prescription drug benefits from a current or former employer, the military or another organization, a letter should have been received by now indicating whether the organization will continue its prescription benefits. If notification was not received, call the plan's administrator as soon as possible. If the plan will be keeping its drug coverage, it should have sent a verification that its drug plan is certified as creditable by Medicare. Save this verification! If you elect to change plans later, or your current benefits are discontinued in the future, you will be able to sign up for another Part D plan without paying a late-enrollment penalty. If your plan is not creditable, you should look into enrolling in a qualified Part D plan.

**Plan Ahead.** If a beneficiary now only takes a few prescriptions, and even though drug costs may currently be low, it's still a good idea to consider signing up for a less expensive plan now as insurance against the possibility that prescription needs might increase in the future. Those who do not enroll by May 15th, 2006 or do not have creditable coverage will pay a penalty for every month they delay in signing up after the deadline. And the penalty amount will be added to their Part D premium for the rest of their lives. Once enrolled, beneficiaries are allowed to change plans once a year during open enrollment.

***It is best to sign up now, even if you're unsure you'll use it. There is a penalty for late enrollment in a Medicare D plan.***

**Information Resources:** AARP offers three free publications explaining Medicare Part D. You can find these publications at www.aarp.org/medicarerx or call 888-687-2277. To see a comparison of all the plans, enroll, or to ask questions about Medicare D, call Medicare at 800-633-4227 or go to www.medicare.gov

## Thank You!

We at Mosaic Financial Partners, Inc. thank each and every one of you for helping us make 2005 our best year ever! We appreciate the opportunity to help you successfully manage the financial side of your lives. Our growth, is only possible as a result of your ongoing support and the referrals you share. We appreciate your confidence and thank you for keeping us in mind.

# Annual Tax Change Round-Up

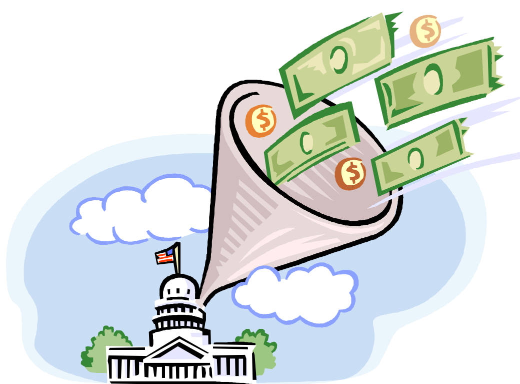
To help you plan ahead for the year, here's a list of the important tax law changes taking effect in 2006.

**Income Tax**

- The personal exemption for taxpayers and their dependents rises by $100 to $3,300 each.
- The standard deduction for those under 65 increases to $10,300 for married couples, $5,150 for singles and $7,550 for head of household
- Children under age 14 can now receive $1,700 of investment income before being taxed at their parents' highest marginal rate.
- Brackets for taxable income were inflation-adjusted up 3.1%.

**Social Security**

- Wage earners will pay Social Security tax on their first $94,200, up $4,200.
- The tax rates stay at 6.2% for FICA and 1.45% for Medicare (Medicare taxes are charged on all wages, with no upper limit).
- If you are receiving Social Security benefits and are also working, your earnings will reduce your benefit amount *only* until you reach your full retirement age. There is no limit on earnings beginning the month an individual attains full retirement age (65 and 6 months for those born in 1940; 65 and 8 months for those born in 1941). For those under full retirement age — one dollar in benefits will be withheld for every $2 in earnings above the monthly employment earnings limit of $1,040.



***Social Security taxes will apply to the first $94,200 of wages***

**Estate Planning**

- The estate tax exemption is $2,000,000 for 2006 through to 2008. It is scheduled to rise to $3,500,000 in 2009. Unless further tax law changes are enacted, the estate tax will be repealed for one year in 2010 and in 2011 the exemption amount will return to its 2002 level of $1,000,000.
- The generation skipping exemption has also increased to $2,000,000 for 2006.
- The top estate tax rate has been reduced to 46% for taxable estates of $2,000,000 or more (the rate is 45% for estates between $1,500,000 and $2,000,000).
- You can gift up to $12,000 per year per person without tax impact. This limit has been increased $1,000 from last year.

***Beginning in 2006, you can gift up to $12,000 per year per person without tax impact***

**2006 Retirement Plan Contributions**

- The maximum elective deferral limit for participants has increased to $15,000/year for 401(k), 403(b) and 457 plans. The limit is $20,000 for those 50 and over (i.e., a $5,000 catch up is allowed).
- The annual contribution limit for Simple IRAs is $10,000 ($12,500 for those 50 and over).
- The contribution limit for Keoghs and profit sharing plans is $44,000.

**2006 Mileage Deductions**

- In 2006, the standard mileage deduction for business will be 44.5¢. For medical-related transportation or moving related travel, the rate is 18¢.
- The rate for travel in service of a charity is 14¢. If such travel is for charitable activities related to Katrina relief, the standard deduction is 32¢ per mile.

**Long Term Care Insurance Deductibility**

- Individuals age 71 and over will be able to deduct LTC insurance premium expenses of as much as $3,530 per person. The deductible limits are lower for younger persons.
- Medical expenses exceeding 7.5% of your adjusted gross income are deductible. In many cases this can include expenses associated with long term care.

# Around the Office ...

***At The Podium*—Norm Boone** and **Linda Lubitz** were in Chicago in November to talk to the Wealth Management Conference about the importance of having a clear investment policy.

***Education A Continuing Affair*—**Congratulations to **Dave Cowles**, our Director of Investments, who passed Level I of the Chartered Financial Analyst (CFA) Examination in December 2005. Of the worldwide participants taking this exam, only 34% passed. Congratulations also to **David Lawrence** who received notice in early January that he passed his CFP certification exam. David is now a full-fledged CFP® and has been promoted to full Financial Planner status. **Norm and Linda** spent two days in February at a Technology conference, getting updated on all the industry's latest and greatest tools and programs to help us serve our clients better. In January, **Janette Rodriguez**, our Client Services Specialist, visited Charles Schwab & Company's – Schwab Institutional Offices in Phoenix, AZ. The representatives there provided Janette with one-on-one training sessions to improve her knowledge of trust accounts, estate planning options and retirement accounts. This training will provide immediate results since Janette works with our clients and Schwab on a daily basis in handling all client account-related issues. In January **Holly Gillian Kindel** started her first semester as adjunct professor at Golden Gate University teaching the "Introduction to Financial Planning" course, which is the first class in the CFP education program. In November, the Mosaic staff spent eight hours working with facilitators to further our listening and interview skills. **Juliet Wisdom**, with the help of **Holly** and others, developed a two week training program for the Mosaic staff to bring everyone up to speed on our internal systems and procedures. Every day for the first two weeks of the year, the staff met for about 3 hours to review materials, and then everyone had "homework" assignments to accomplish. Thank you Juliet and Holly!

***Accomplishments***—In recognition of her work in 2005 with the Earned Asset Resources Network **Holly** was named EARN's first "Volunteer of the Year" and featured in the February 6th issue of the San Francisco Examiner. **Janette** recently began volunteering for Under One Roof, which is a San Francisco-based organization that raises and distributes unrestricted funding for the fight against AIDS. 100% of the profit from items purchased at Under One Roof is distributed to participating organizations. **Juliet** is currently coaching runners 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 on November 6th. But, no more running for a while—she's pregnant! For a second term **Sabrina Lowell** served as a mentor to UC Berkeley students as they provided financial planning to EARN alumni. **Susan Morse** continues to work with the Financial Literacy Committee of the Security Analysts of San Francisco. In late November, she taught several classes to high school students at San Francisco's Academy of Finance at Lincoln High School. In addition, she has been involved with fund-raising and planned giving efforts for the Women's Initiative, a one-stop shop where high-potential, low-income women receive training to start and grow their own businesses.

***Family Matters***—**Norm** and **Linda** spent two successful weeks after Christmas at the Hilton Head Health Institute, working on weight, exercise, diet and overall health issues. They highly recommend HHHI.

# Employee Spotlight — Annette Brinton

We're happy to welcome our newest staff member, Annette Brinton, to the Mosaic team. Originally from Southern California, Annette relocated to San Francisco in 1991 and has never looked back!

Annette is a CPA who began her career with Ernst and Young in San Francisco. She has 15 years experience as a senior finance professional, many of which were spent working with companies to expand their presence in overseas markets. Her business travels have taken her to over 18 different countries including a 3 year stint living in London where she became an avid fan of soccer and a big supporter of team Arsenal .

Annette holds a BA in Business Economics and Accounting from UC Santa Barbara and is currently preparing to sit for the CFP exam.

Annette and her husband Adrian live in San Francisco and enjoy traveling, hiking, skiing, cooking and entertaining.

# San Francisco Emergency Preparedness

In the aftermath of Hurricane Katrina, we began to think about our own ability to respond to a time of crisis and disaster. Being based in the San Francisco Bay Area, we are acutely aware of the risk of earthquakes and want to be sure we are as prepared as possible.

www.72hours.org, is an informative San Francisco-based web site that provides useful advice on how to prepare for and cope with a range of natural or man-made calamities. The site provides everything from detailed lists of items you should have prepared in the event of a disaster to instructions on how to turn off a gas valve if you smell a gas leak. A few of the general recommendations they make are:

**Designate an out-of-area contact person**. Try to select someone who is far enough away to not be affected by the same emergency. Provide this person with the names and contact information of the people you want to keep informed of your situation. Instruct family members to call this person and tell them where they are. Long distance phone service is often restored sooner than local service.

**Duplicate important documents and keep copies off-site** — either in a safe deposit box or with someone you trust (such as Mosaic). Documents may include: passport, drivers license, social security card, wills, deeds, financial statements, insurance information and prescriptions.

**Inventory your valuables, in writing and with photographs or video.** Keep copies of this information off-site with your other important documents.

**Make a household/family plan**. Involve all family members in the planning.

**Put together a disaster supply kit**. Plan to have supplies for yourself and family for at least 3 days following a disaster.

**When planning, consider the special needs** of children, seniors or people with disabilities, family members that don't speak English and pets.

We strongly recommend that if you live in the San Francisco Bay area that you visit this site and take heed of their recommendations.

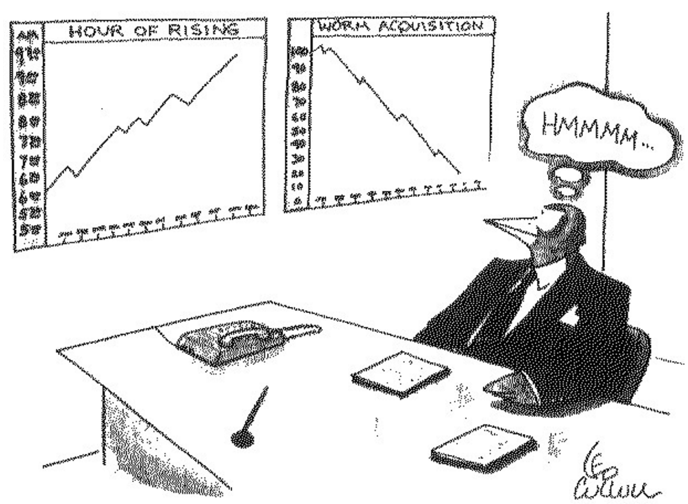
## How to Best Transfer Money Between Accounts

Filling out a form each time you want to transfer money from your investment account to your bank account can be frustrating. But there is a better way!

The easiest and quickest transfers take place through a pre-established link between your investment and bank accounts. We can help you link your investment account with your personal bank account (Schwab calls it a "MoneyLink"). While you will have to complete a form to set this feature up, it's only a one-time event. Once the transfer function is operational, you can call our Client Services Department and let us know how much you'd like transferred and when. The transfer can usually be completed the next business day.

Where ongoing transfers may be desired, we can also set up periodic distributions between your investment and bank accounts. While you always have the option of wiring funds from one account to another, wires can take two to three days to complete and typically cost about $25 per wire.

If you are interested in setting up a transfer feature in your account, call Janette Rodriguez in our Client Services Department.




## Fast Facts …

- The average price of a new home sold in the U.S. in 2005 was $292,200—an 84% increase in value over the last 10 years (an average gain of 6.3% per year).
- Roughly one in every eight companies in the S&P 500 Index has increased the dividend paid to shareholders for at least twenty-five consecutive years.
- The average American worker has received wage hikes of 3.4% annually over the last twenty years. Inflation has averaged 3% over this same period.

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Financial Planning & Investment Management

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# Thoughts to Live By

"The only way to live is to accept each minute as an unrepeatable miracle, which is exactly what it is - a miracle and unrepeatable." -- **Margaret Storm Jameson**

"Challenge everything you do. Expand your thinking. Refocus your efforts. Rededicate yourself to your future." **-- Patricia Fripp**

"Some people, no matter how old they get, never lose their beauty--they merely move it from their faces into their hearts." — **Martin Buxbaum**

"Without involvement, there is no commitment. Mark it down, asterisk it, circle it, underline it. No involvement, no commitment." -- **Stephen Covey**