MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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"Kiddie" Tax Impacted by Recent Tax Law Changes

Congress has recently changed the rules for income tax on unearned (investment) income for children. This includes income for those who are saving for their child's college education through custodial (UTMA) accounts or accounts held in your child's name. Under the old law, investment income earned by children age 14 or older was taxed at the child's own tax rate, rather than the parents' higher tax rate. Under the new law, if a child is under the age of 18, unearned income in excess of $1,700 per year will be taxed at the parents' tax rate (rather than the child's lower tax rate). The result will generally be a larger tax bill for the family.

So what should you do? The rule does not apply to accounts specifically designed for college savings— 529 college savings or Coverdell accounts. Earnings from both 529 and Coverdell accounts are tax free if the money is used to pay for education expenses. Unfortunately, you can't transfer money directly from a custodial account into a 529 or a Coverdell; you must liquidate any holdings and this may incur capital gains.

So long as the funds are used for the child's benefit and are not expenses typically the responsibility of the parent (food, shelter, etc.), UTMA monies can be used for a variety of purposes. Consider using UTMA money to pay for pre-college education costs or after school programs that you might otherwise pay out-of-pocket. Deposit what you have save into a 529 or Coverdell account. This moves the money out of the UTMA and into a preferred college savings vehicle.

How you invest UTMA funds can also make a difference. If you lower or eliminate the taxable income, you avoid the limitation. Consider moving into indexed equity funds and/or municipal bonds to help keep taxable income under the $1,700 threshold. Delay selling assets or

Mosaic Can Now Manage Your 401(k) Account

For many months now, we have been hard at work enhancing our portfolio management system. You won't see most of the benefits until October, but one change can be taken advantage of immediately. We are now able to incorporate many company sponsored retirement accounts (such as 401(k), 403(b), or deferred compensation plans) in your portfolio management. Up to now, we have not had the ability to download holdings and transaction history for these kinds of accounts — and account statements would come too late for us to include the data in our performance reports. However, with new technology and an additional service provider in the picture, we are now able to now work with many employer plans.

Under this arrangement, we'll be able to monitor your overall investment allocation and place trades in your retirement accounts when needed. Your company retirement accounts will also be included in your quarterly performance report. This will allow you to see all of

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What's Inside

What to Keep in Your Safe Deposit Box

As a general rule, only those documents and valuables that are irreplaceable or difficult to replace should be kept in a safe deposit box. Items that can be replaced with minimal inconvenience, such as passports, or documents frequently needed for reference (canceled checks), can be kept in a safe place at home. Items that will be needed shortly after death (e.g. burial instructions or power of attorney) should NOT be stored in a safe deposit box. However, it is a good idea to keep copies of such items in a safe deposit box.

When a safe deposit box renter dies, there are specific rules governing access to the box and its contents. In many states (though not in California), the safe deposit box is sealed upon the death of the renter. If there is a surviving joint-holder or deputy, he or she will not have access to the contents of the box until the Inheritance Tax Department or the County Auditor makes an inventory of the box and removes the will for probate.

The deceased person's attorney usually makes the arrangements for the tax inventory. It typically takes a minimum of two to three days or, more frequently, up to a month before the process is completed. After the tax inventory, the County Auditor issues an authorization stating who may remove contents from the box.

Documents that may be needed immediately following a death (such as wills or insurance policies) should NOT be kept in the safe deposit box. The original copy of a will can be kept in a fireproof safe or with your family attorney. If the original will is kept with your attorney, it is still a good idea to keep a copy of the will in your safe deposit box and another copy at home where it is readily accessible for review by family members.

Many safe deposit box holders store valuable articles for other family members (such as coin or stamp collections, that belong to their children or spouse). Since there is a presumption that anything found in a safe deposit box belongs to the box holder, if any items are being stored for others, it is important to keep with these items papers that document the ownership by someone other than the box holder.

Duplicates of the items in the list below marked with an "*" should be kept in your home financial files for quick reference. Make sure a

PERSONAL DOCUMENTATION
Marriage certificate
Copy of will
Birth certificate
* Copy of passport
* Copy of college degree
* Copy of professional license
* Copy of separation/divorce papers
Social Security Card
* Copy of health information (vaccinations, hospitalizations)
* Military records

REAL/PERSONAL PROPERTY
* Deeds, titles, title insurance for home
* Deeds, titles, title insurance for any other property you own
* Deeds, title, title insurance for auto(s)
* Videotape/DVD inventory of house
* Copy of receipts for big-ticket items like furnishings
* Copy of homeowner's insurance
* Copy of receipts for home improvements
* Coins, jewelry, etc.

FINANCIAL/BUSINESS
* Copy of employment contract
* Original stock certificates (if not held in street name, which is the recommended form of ownership)
* Original prospectuses and sales materials for any limited partnerships
* Bonds and Treasury securities (if not held in street name)
* U.S. savings bonds

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your investments in one consolidated presentation. Further, we can better position ***where*** your assets are held to take full advantage of the available tax deferral in these accounts. For example, if you are currently holding stock funds in your retirement account, it may make more sense to shift this portion of your overall asset allocation into your taxable accounts and hold less tax efficient investments in your retirement accounts instead.

Whether we can work with a particular company retirement plan account will depend on whether we can download account holdings and transaction history. If so, we will be able to incorporate these assets into your overall portfolio

Stretching your IRAs – how to maximize your IRA

Individual Retirement Accounts ("IRAs") offer a great way to accumulate assets, but they are not perfect. When assets come out of an IRA, they are taxed at the owner's highest marginal tax rate. If the owner dies while there are still assets in the IRA, they can be subject to both income and estate taxes.

On the other hand, IRAs enjoy a number of advantages. Assets grow more quickly in a tax-deferred account like an IRA because no income tax is paid on the gains while the investment is in the IRA. Contributions may also be tax deductible. Further, IRA rules allow you to pass your IRA account to one or more heirs. This can allow account holders to "stretch" out their IRA benefits over more than one lifetime (this is referred to as a "stretch IRA"). Any traditional IRA or Roth IRA can be passed on to heirs, who can then take distributions from the IRA over their remaining life expectancy. It does not need to be cashed in right away as many people assume.

Stretching out an IRA allows your heirs to continue earnings growth on a tax deferred basis. Although they must still make withdrawals at a required minimum level, the rate of this mandatory withdrawal can be so small for some heirs that the amount is insignificant compared to the growth that is occurring.

Over time, this tax deferred growth can help individuals accumulate significant funds within their IRAs. For parents and grandparents who have more than enough money to support themselves in retirement without the need to tap into their IRAs, continuing this tax deferred growth for as long as possible may be a desirable strategy.

To use an example:

- Owner of the IRA: a 77 year old male, with a wife of 77
- Named beneficiary of IRA: grandchild age 3,
- Traditional IRA with $250,000 as at the end of prior year
- Age of death: Granddad—age 85; grandmom—age 89; grandson—age 90
- Account earns 8.48% each year.
- Amount remaining in account at grandad's death: $321,000 (growth less required minimum distributions)
- Wife inherits. Account grows to $330,937 at her death. Grandson is age 17.
- Grandson's Minimum Required Distribution (MRD): $5,000 in year 1 and increasing slowly thereafter.
- Future value of IRA after the MRD: over $1 million at grandson's age 34 and over $5 million at his age 71. MRDs would grow to over $500,000 per year.

All of that from one $250,000 account.

These are all simplified assumptions (no account will earn 8.48% each year on a steady basis). But the longer term impact can be substantial so long as, over time, just the minimum distribution is taken (unlike a traditional IRA, the beneficiary of an inherited IRA is not subject to the normal 10% penalty for distributions before age 59 ½ years old. However, these withdrawals will still be subject to normal income tax).

Did You Know?

FEAR – the 2000-02 bear market for stocks hit bottom on 10/09/02. Five major domestic stock indices all hit lows on that date. The headline in USA Today the following morning (10/10/02) was "Where's the bottom? No end in sight." In spite of this gloomy headline, the S&P 500 is up 64% and the NASDAQ has gained 95% from that low point to 6/30/06 (Source: BTN Research, USA Today).

CORPORATE TAXES – US corporations pay a marginal tax rate of 35% on their highest level of taxable income and 39.3% when an estimate of state taxes is added in. The 39.3% rate is higher that the marginal corporate income tax rate levied in any of the 12 nations that make up the Eurozone (i.e., countries that use the euro as their common currency) (Source:

AROUND THE OFFICE

At The Podium—In June **Holly Gillian Kindel** spoke to over 60 chapter leaders at the Financial Planning Association's first ever Pro Bono Directors Forum in Tyson's Corner, VA. She spoke about the San Francisco Chapter's multiple pro bono achievements, including the Pro Bono Committee's work with the Earned Assets Resources Network.

Education A Continuing Affair—**Janette Rodriguez** attended the July Schwab Solutions conference, getting training on transferring assets into Schwab accounts and Schwab's newest initiative, ***electronic delivery***! **Holly** enjoyed her second trimester as adjunct professor at Golden Gate University, where she taught the finance department's "Introduction to Financial Planning" course. In August, **Kevin Gahagan** joined leading NorCal financial planners at "The Far West Round-up" in Santa Cruz for a full weekend of learning.

Accomplishments—**Norm Boone** and **Linda Lubitz** launched their software product IPS AdvisorPro™ in April to great reviews and good commercial success. This is the software companion to their 2004 book on Investment Policy Statements. **Mosaic Financial Partners** was named to Top Financial Advisors lists in San Francisco by SF Business Times and nationally by Financial Advisor magazine.

Giving to the Community—**Annette Brinton** has recently started working with the Women's Initiative, which assists high-potential, low-income women establish small businesses. Annette is serving on the Loan Committee and was recently asked to conduct a seminar on Personal Finance for their October Business Conference. **Holly**, as the chair of the SF FPA's Pro Bono committee will be interviewing applicants for its first ever scholarship, to be awarded to an outstanding financial planning student at Golden Gate University. The winner will selected from among students involved in a project providing a comprehensive financial plan for the working poor. **Susan Morse** spent a full day in July assisting the Financial Literacy Boot Camp for Urban Youth , working with the kids in areas of budgeting, credit cards and understanding investments and financial terms.

Family Matters—**Norm's** daughter Nani will be starting her junior year at UCLA in the fall. Norm and son Andrew left in August for Madrid, Spain where Andrew will be attending his final semester at USC. Our on-leave Office Manager **Juliet Wisdom** and her husband Sean welcomed a healthy and beautiful daughter Reese into the world on August 11 at 11:17 AM at 7lb, 7 oz, and 19 1/2".

Employee Spotlight – Harry Smith

Our Office Manager Juliet Wisdom is out on pregnancy leave. Harry Smith has been helping us as our interim Office Manager/Project Assistant. Harry is a recent arrival to the Bay Area from New York City where he was in office management with an Economic Political Advisory firm. He has worked in variety of offices from large companies such as Citibank to small advisory firms such as Medley Global Advisors. His experiences with both technical and office procedure implementation will be a great benefit to Mosaic Financial Partners and its goal to provide the highest level of service to its clients. As well as filling in as Office Manager Harry has been assisting Kevin Gahagan with several marketing and office automation projects. Harry grew up in North Carolina and attended North Carolina Wesleyan College where he received a degree in Chemistry. His interests include mountain biking, following professional baseball and exploring the

Equity Still Viable Despite Retiring Boomers

This year, the first of about 78 million baby boomers turn 60. The generation that challenged the establishment, fought the Vietnam War, and went on to generate the greatest wealth in the country's history is beginning to envision a future in which retirement (or semi-retirement) is at least somewhere in their sights.

Many have suggested that as this large shift in the U.S. population's age structure evolves, individuals and pension funds will sell assets or move from stocks to bonds, causing the long-term return on stocks to fall.

Could all 80 million Boomers cash in their equity assets and their 401(k)s over the same few years?

Rest assured this is highly unlikely to ever happen. As adults, Boomers have experienced potential growth of over 1000% since the great bull market began in 1982. Unlike their parents before them, boomers have consistently looked to the equity markets for their primary wealth generation opportunities.

As wealthy Americans like Bill Clinton, Donald Trump, and Cher turn 60 this year, there are far more boomers heading towards this ripe age without the necessary wealth to generate enough income in retirement. Most boomers simply do not have enough money; they will continue to need the growth that stocks can potentially provide to generate the funds needed in their non-working years as well as to stay ahead of inflation.

The Real Demographics

The baby boom encompasses the period from the end of World War II to the advent of the birth control pill in 1964. As a result, millions of younger boomers are still at their peak creative and earning years.

Those turning 60 have shown few signs of slowing. Baby Boomers are healthier, better educated and likely to live longer than their parents. Most Boomers have no intention of retiring in the foreseeable future. They will continue to invest for as long as they are out earning their paychecks. Just from 1998 to 2005 the labor force participation rate of men and women age 65 and older increased by 20% and 34%, respectively. A 2004 U.S. Government Survey found that almost 32% of boomers said they never intend to stop working for pay.[2]

Increasing life expectancy will also force retirees to spread asset sales over a longer period, minimizing any possible "mass exodus." In addition, the wealthiest 10% of Boomers own about two-thirds of the financial assets held by this generation. Based on behavior of current retirees, assets will be slowly depleted in retirement, with many actually continuing to accumulate assets.

This does not suggest a massive stock market exodus.

The Importance of Dividends

Sources of stable income are rare these days. Few employees today can participate in a pension plan. Social Security's future is uncertain. As a result, the importance of personal savings will be critical. Unfortunately, unlike many of their parents, many Boomers have not accumulated enough assets to meet their retirement income needs. Dividends are expected to return to provide a key component of inflation-adjusted income. As the demand for dividends grows, we expect companies to increase their distributions over time to satisfy these investors' needs. Many companies not currently paying dividends will do so in the future in order to attract investment from the growing retirement base in this country. All of which supports Boomers continuing to be a source of support for the equity market

International Investors

The world economy is experiencing a synchronized global expansion. One result from an investor's perspective is that the world is less and less composed of separate and individual nations and more and more one large integrated financial market. As long as the world remains on this bumpy but vital road towards globalization, globalizing markets will expand not only our investment opportunities but also the market for our investments when we sell them.

For every Baby Boomer that turns 60, there are scores of young workers in the developing nations that are joining their nations' rapidly ex-

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"If you don't have a vision, then your reality will always be determined by other's perceptions." -- **Melanee Addison**

"The future depends on what we do in the present." -- **Mahatma Gandhi**

"Striving for perfection is the greatest stopper there is. It's your excuse to yourself for not doing anything. Instead, strive for excellence, doing your best." -- **Sir Laurence Olivier**

"The greater the danger for most of us lies not in setting our aim too high and falling short; but in setting our aim too low, and achieving our mark." -- **Michelangelo Buonarroti**