MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

November 2006 www.MosaicFP.com

Top Ten Year End Tax Planning Tips

December 31 is just around the corner and a number of valuable financial strategies, will need to be completed by the end of this calendar year. The goal, of course, is to reduce taxes, or to postpone them for another day.

The following is a list of year-end tasks you should consider:

1. Personal Retirement accounts.

Personal 401(k) (if you are an employee)—If you enroll now and ask the payroll department to deduct the full amount of your check, you probably have time to maximize your 401k contribution. At worst, sign up now so you'll have all of 2007 to make contributions.

If you want to impact your 2006 taxes, the following accounts may be set up any time between now and your 2006 tax-filing deadline

- Personal IRA – up to April 15, 2007
- Personal Roth IRA – up to April 15, 2007

2006 Retirement Plan Contribution Limits

- 401(k) = $15,000 + $5,000 catch-up for those age 50 or older
- IRA or Roth IRA = $4,000 + $1,000 Catch-up

2. Employer Retirement Accounts

If you want to impact your 2006 taxes and you own your own business, the following plans must be established no later than December 31:

- Profit Sharing Plan
- Solo 401(k) (often the best choice if your only employees are yourself or your spouse)

To set up a company SEP-IRA account, you have up until your tax filing date, including extensions, .

<u>2006 Retirement Plan Contribution Limits</u>

- Solo 401(k) = $44,000 + $5,000 catch-up for ages 50 or older (due to how the limits are calculated, a Solo 401(k) will often allow high plan contributions)
- PSP and SEP IRA = lesser of ~25% of earnings or $44,000 + $5,000 catch-up for ages 50 or older

What to do if your credit card is lost or stolen

If you prepare for the possibility that you might lose your credit card, you will be much more able to deal with the event, if it happens. Here are steps you should take to protect yourself in the event your card is stolen or lost.

Cancel the account: once you are sure the card is gone so no one else can use it. To do so, you will need to call the card issuer's toll free customer hot line and provide them with your card number.

This can be difficult task if you do not have the proper numbers. To make things easier, photocopy the front and the back of each of your credit cards and keep the copy separate from your wallet. If you do not have the telephone number of the card issuer, you might be able to find it either through directory assistance or on the web.

If you call the card company but don't have the card's number, you will be asked to verify your identity. Be prepared to tell the customer service representative your social security number and a pre-registered security word (e.g., your mother's maiden name, you favorite pet's name etc…). When you have finished notifying the card issuer you should also contact the three credit reporting agencies: Experian, TransUnion and Equifax

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What's Inside

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3. Custodial Accounts and Gifting

To avoid gift taxes or reporting requirements, each person can make gifts of up to $12,000 per calendar year to as many individuals as they like (a husband and wife can gift $24,000).

Consider funding a custodial or college savings plan for a child or grandchild to take advantage of the $12,000 annual gift exclusion for tax year 2006

With the 529 account, you may pre-fund five years of gifting in one year for a total of $60K (limiting your gifting in the subsequent 4 years)

These plans, generally used for setting aside savings for education, can be set up anytime:

- Uniform Transfer to Minors Account (UTMA)
- 529 College Savings Plan

4. Charitable Giving (deductible in 2006)

Charitable gifts for 2006 must be complete no later than December 31.

Gifts made with cash or checks are the least tax efficient. If you have securities or other assets with large gains, consider using them instead of cash to make your gift. We can help with this.

Donor Advised Fund – Use this vehicle to receive a tax-deduction in the current year and distribute the funds at your discretion in this or any future year. This approach is especially useful if you had unusually large income this year.

5. Required IRA Distributions—If you turned 70 ½ this year, you are required to begin taking minimum distributions from your IRA accounts. You have some leeway on the timing in the first year, but hereafter must take an annual minimum distribution, based on your account balances. If we have not contacted you, please call us so we can help you with the calculations and put you on a regular distribution schedule.

6. Roth IRA Conversion—you may be eligible to convert part, or all, of your traditional or rollover IRA if your 2006 adjusted gross income is less than $100K. While taxes are due in the year of conversion, all future growth, earnings, income, and withdrawals are tax-free from a Roth IRA.

7. Strategic Timing of Income and Expenses—tax payments may be postponed as a result of delaying the receipt of income. This is a bad strategy if you expect to be in a higher tax bracket next year or if you are in AMT. In those cases, it is better to pay tax at today's lower rates or even accelerate income for AMT purposes.

8. Itemized Deductions—you may defer or bunch expenses such as professional fees, medical expenses, or mortgage expenses. Consider making your January mortgage payment in December to accelerate the interest deduction.

9. Reportable Income—you may want to consider deferring bonuses or additional income until after December 31 depending on changes between your 2006 and 2007 tax situation.

10. Tax Loss Harvesting—Mosaic looks for tax-loss harvesting opportunities in your portfolio on a quarterly basis. Additionally, if you have not yet done so already, please provide Mosaic Financial Partners with your 2005 tax return or email us with any capital loss carry-forwards which we may utilize prior to year-end.

If you have questions or would like more information regarding year-end planning, please call us.

(Continued from page 1—Lost Credit Card)

and have them place fraud alerts attached to your name and social security number. Their telephone numbers are provided below for your convenience.

If you are a victim of actual credit card theft, you should also file a police report in the jurisdiction the theft occurred. The purpose of this step is to prove to the card companies that you have done everything possible to stop any fraudulent transactions, helping to prevent you from coming under suspicion in the event the thief uses your card to make some extravagant purchases. Realistically, you should not expect the police will find the card for you or to catch the thief.

You should not worry too much about what kind of expenses might be rung up on your stolen credit cards – you are only liable for a maximum of $50 per card. Since you are not liable for any amount charged after you have reported the card as being stolen, this is a good reason to report the loss quickly..

Credit bureau telephone numbers:
Equifax: (800) 525-6285
Experian: (888) 397-3742
TransUnion: (800)-680 7289

Family Incentive Trusts
Estate planning and family goals

Inherited wealth can bring many wonderful benefits to heirs who are the recipients of parental largesse. But it can also lead to many unintended and possibly corrupting influences on young and immature beneficiaries.

Almost without exception, parents want their children to grow up to be responsible, to know the joys of personally earned successes, and to have a sense of self worth. Unless there has been a conscious and continuous culture built up within the family, receipt of a large amount of money can often be more harmful than helpful, especially if received before the child has achieved full maturity, For some, getting a lot of money early in life can take away all incentive to take on challenges and improve oneself.

All parents want their children to grow up to be responsible, to know the joys of personally earned successes, and to have a sense of self worth

The most obvious ways to protect your heirs from the ill-effects of easy money are to 1) limit their inheritance or 2) even disinherit them all together. Neither represents a particularly attractive alternative to most families.

A less harsh approach, advocated by many attorneys, is the use of a Family Incentive Trust (FIT). A FIT permits money to be transferred but only when specific conditions have been satisfied. A FIT can serve many important estate planning goals such as providing a safety net for heirs, as well as providing financial incentives so that the children are encouraged to lead responsible, productive lives.

Most estate planning trusts, including living or revocable trusts, asset protection trusts, ILITs and certain charitable trusts can be designed as FITs. Typically FITs are structured as spendthrift trusts (which means that beneficiaries cannot use the trust as collateral for a loan and creditors cannot gain access to its assets) and FITs can generally enjoy protection from divorcing spouses.

In most FITs, distributions are "earned," based on virtually any criteria, from obtaining a college degree, to maintaining gainful employment, to simply reaching a certain age. Great care needs to be exercised when designing the limitations of a FIT. If a child becomes disabled and unable to achieve pre-determined standards, or wants to become an (usually poorly paid) artist or teacher or chooses to be a stay at home mom or dad, you do not want to punish a child for such choices.

Properly designed, you can limit payments of a trust's income or provide for distributions of both income and principal, based on criteria you establish. If your children are responsible adults, you may wish to give them unrestricted access to trust funds while choosing to modify the provisions as a FIT for your grandchildren.

A good way to ensure a FIT is sufficiently flexible is to establish general principles for distributing trust funds but to give the trustees broad discretion to apply these principles depending on the facts and circumstances. For a multi-generational FIT, another approach can be to give beneficiaries a special power of appointment they can use to adapt the FIT to meet the needs and circumstances of their own children.

One last matter to consider: most estate planning experts agree that negative covenants are counterproductive. Financial incentives that require a beneficiary to refrain from drug use, gambling or other behavior you deem to be undesirable can send the message that you are "ruling from the grave" and can lead to resentment and conflict. More importantly, such negative covenants may encourage beneficiaries to conceal their conduct and avoid seeking help.

A Family Incentive Trust needs flexibility so that unforeseen circumstances don't result in undesirable consequences. Establish general principles to be utilized and give the trustees broad discretion, based on facts and circumstances.

On the flip side, it is important to avoid "buying" particular behavior. If you offer a large bonus to your daughter to be a stay at home mom but she wants to work, she might feel as though she has no choice. It is best to offer a number of options and to be flexible and open to any number of different scenarios as long as it is productive.

Helping your children and grandchildren optimize their lives while allowing them their own freedom to choose while still giving them the opportunity to share in family wealth is no easy challenge, but the effort can be very rewarding. Call us if you'd like to discuss the applicability to your own situation.

AROUND THE OFFICE

Congratulations...**Annette Brinton** successfully took her 10 hour CFP certification exam in early July.

Norm Boone and **Linda Lubitz** were once again honored in the October issue of Worth magazine; each cited as being among the top 100 financial advisors in the country. The November issue of Medical Economics also named both **Norm** and **Linda** to among the top 150 best financial advisors for doctors.

At the Podium...**Norm** and **Linda** presented to a full house at the national Financial Planning Association (FPA) conference in Nashville in October their ideas about the importance of having an Investment Policy Statement. They also mentored several financial planning students from Texas Tech University, which recently announced it would be using Norm & Linda's software IPS AdvisorPro as part of the investment curriculum. In November, **Norm** and **Linda** gave a similar presentation to the FPA of New Jersey.

In October, **Kevin Gahagan** spoke to the Santa Rosa chapter of the American Association of Individual Investors on "Further Thoughts on Asset Allocation." In November, **Kevin** spoke to the Rossmoor Diversified Investors Group on "Contingency Planning – Developing a Successful Plan."

Holly Gillian Kindel has been spending teaching at Golden Gate University, in the capstone "practicum" course of the financial planning curriculum. The course has gotten national attention for providing planning services to low income families. As part of her pro bono efforts, Holly helped design the program.

Education A Continuing Affair...Conference Season arises every fall. This year saw a surfeit of activity for the Mosaic staff.

Kevin attended a retreat on the UC Santa Cruz campus focusing on technical planning topics.

Holly and **Kevin** attended the FPA's leadership conference in Denver. **Holly** participated in a workshop devoted to understanding how our past financial experiences can impact our current and future financial decisions. For more information, see www.klontzkahler.com **Holly** also attended a two day "Integral Finance" workshop that applies Ken Wilber's "Integral Philosophy" to the principles of financial planning and life coaching.

Norm, Kevin, Linda, Holly and Sabrina Lowell all attended the FPA's Annual. **Kevin** organized and introduced the educational sessions on "investments."

Dave Cowles attended a Morgan Stanley fixed income conference in Scottsdale, Arizona

Norm attended the 20th annual Family Firm Institute conference in San Francisco, consisting largely of consultants and therapists, financial service providers and academics working with family businesses.

Norm, Linda and **Dave** attended the Schwab IMPACT conference, hearing such luminaries as Alan Greenspan, Thomas Friedman and Sir Richard Branson.

Janette Rodriguez attended a day-long seminar that on managing emotions while under pressure.

Giving Back to the Community ...**Annette** and **Holly** conducted a workshop called "Transforming Your Personal Finances" for Women's Initiative's Annual Business Conference in October. They hope to provide ongoing workshops on personal finance for Women's Initiative graduates through their SuccessLink program.

Family Matters...**Norm** spent two weeks with son Andrew, touring western Europe on the way to Madrid, where Andrew is spending his final semester before graduating from USC. Fiancé **Linda Lubitz** joined them in southern Spain. She and Norm spent the next two weeks exploring the fascinating country of Morocco. Norm's daughter Nani is happily ensconced in Los Angeles, enjoying her junior year at UCLA.

Juliet Wisdom had her first child, Reese, in July. Right after Reese's birth, Juliet's husband Sean accepted a job promotion which has caused them to move to Southern California.

Employee Spotlight – Matt Szarka

Matt is our new Marketing Coordinator. He recently moved to San Francisco from Cleveland, where he worked for five years as the Marketing Director at a full-service financial education and planning firm. He holds his bachelors degree in Marketing and Finance from Baldwin-Wallace College.

In his new role, Matt will be intimately involved with Mosaic's marketing strategy and client communications.

Matt has a pet marsupial named Guido. He is also an avid reader and traveler.

What's the right mix of Domestic and Foreign stocks?

This simple question is not as straight forward as it sounds. Surprisingly, the answer depends on where you live! For example, most investors in the United States have less than 15% of their equity portfolio in "foreign" stocks while a typical investor living in the United Kingdom would have a much higher percentage of stocks based outside of the UK Remember, to the investor from the UK, stocks based in the US are "foreign". So, how should an investor determine the right mix?

When our investment committee recently tackled this question we started with an analysis of the worldwide stock market. According to Morgan Stanley, at the end of last year, the total market value of all publicly traded stocks worldwide can be broken down by country and summarized as follows:

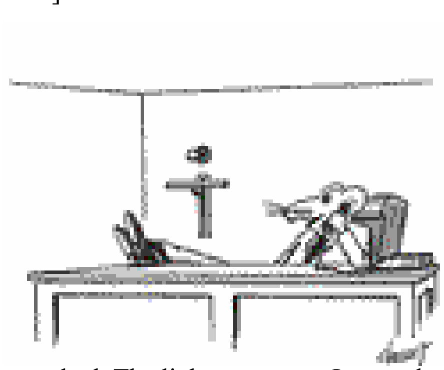
Division of World Equity Values		**Largest Four Countries**
United States	48%	
Developed International	45%	Japan, UK, France, Canada
Emerging Market countries	7%	Korea, Taiwan, So Africa, Brazil
Total	100%	

The above split represents the total value of all equities that are available for investment on public markets. The smart folks who research investment theory, (including some Nobel prizes winners) tell us that to achieve the most risk reduction benefits of a fully diversified portfolio it should follow the relative weight of all available investments. According to that theory, the equity portion of the portfolio should be split 48% US stocks, 45% International stocks, 7% Emerging Market stocks. [We are focusing here only on the equity portion of a portfolio and ignoring the amount invested in cash and bonds or other asset classes.]

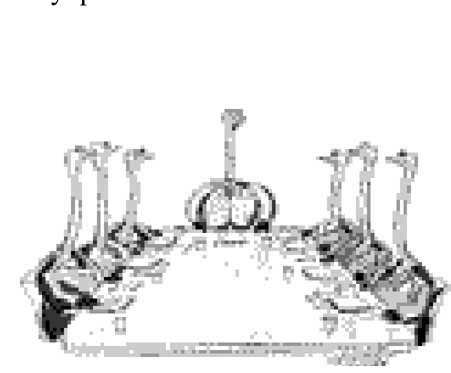
While the theory is nice, most investors have a "home country bias" and would not be comfortable with a 52% international allocation. In other words, they would have strong remorse if international stocks significantly under perform US stocks. So, the challenge facing our Investment Committee was to decide how much international allocation should we recommend with that in mind? There is no "right" answer. We had to balance the benefits of being fully diversified with the risk that some clients might react poorly to an underperforming international market and want to sell out of international stocks at the worse time (e.g. when they under perform US stocks). After much discussion, we ultimately decided that the majority our clients could tolerate 40% of their equity allocation be dedicated outside the US. While this is less than the 52% theoretical ideal, it is still much more than the typical US investor currently holds (and also more than many other financial advisors recommend).

But what about that investor in the UK? What does theory say the British citizen should do? Basically the solution is the same but the definition of what is "domestic" vs. "foreign" is different. Since the market value of all UK stocks only represents about 10% of the worldwide total that becomes his "domestic" allocation. Accordingly, the UK investor should have 10% of his equities in "domestic" UK stocks, 48% in US stocks, 35% "other foreign" stocks and 7% Emerging Markets.

Mosaic Financial Partners has always recommended international stocks be part of our clients' portfolios. However, we are now recommending the international allocation be about 40% of the equities in a portfolio. Most clients have already approved this policy change. Please let us know if you have any questions.



"Oh, not bad. The light comes on, I press the bar, they write me a check. How about you?"
by Tom Cheney



"The motion has been made and seconded that we stick our heads in the sand."
by Mischa Richter

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Thoughts to Live By

Mistakes are part of the dues one pays for a full life." -- **Sophia Loren**

"Do not dwell in the past; do not dream of the future, concentrate the mind on the present moment." – **Buddha**

"Our plans miscarry if they have no aim. When a man does not know what harbor he is making for, no wind is the right wind." – **Seneca**

"I remember saying to my mentor, 'If I had more money, I would have a better plan.' He quickly responded, 'I would suggest that if you had a better plan, you would have more money.' You see, it's not the amount that counts; it's the plan that counts." -- **Jim Rohn**

"In the long run, men hit only what they aim at. Therefore, they had better aim at something high." -- **Henry David Thoreau**