MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

May 2007 www.MosaicFP.com

Personal Umbrella Liability Insurance – How Much is Enough?

It is an unfortunate by-product of life today that one small accident — even if it is largely not your fault — can lead to enormous claims against your savings, personal assets and even your future earnings. As protection, we strongly recommend you carry excess liability ("umbrella") insurance coverage.

An umbrella liability policy addresses losses *not* covered under the basic liability coverage found in your homeowner's and auto policies. It will generally cover damages arising from unusual occurrences, including personal injury losses due to libel, slander, wrongful eviction, false arrest, and invasion of privacy. Working in conjunction with your homeowners and auto policies, umbrella insurance also increases the amount of coverage provided under these policies. If you are found responsible for causing an injury or property damage, your personal liability insurance can pay for your legal defense and pay for any claims up to the limits of your policy.

How much coverage do you need? There is no easy answer. The factors that an insurance company considers when issuing a policy include: how much coverage is requested (i.e., $1mm in coverage or $10mm?), the number of properties owned/rented and the number of automobiles/watercraft owned. The critical question is how much *exposure* you have.

The following are common areas of exposure. The more of these you have, the more coverage you need:

- Have a high income or net-worth.
- Own an expensive automobile – accident victims often have complicated injuries and tend to be less compassionate when hit by a luxury automobile.
- Own a swimming pool, hot tub or spa.

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Investment Mistakes

Investment decisions are often made irrationally. Investors underestimate the range of potential outcomes. They over or under-react to market events. They use faulty reasoning. They have unrealistic expectations. They make short-sighted decisions. Each of these tendencies can lead to bad outcomes.

Three of the more common irrational behaviors are: overconfidence, anchoring and recency.

- Overconfident investors believe they have more control over outcomes than n reality they do. They often think a run of good results comes from their investment skill rather than good fortune. Most will eventually be humbled by their own mistakes.
- Anchored investors are those who intuitively believe that current trends will continue unabated. This can lead to unrealistic expectations. In 1998 and 1999, we had several clients tell us with great certainty that Cisco's stock price would continue to rise. Too often forgotten is the truth that *past performance does not guarantee future results.*
- Investors subject to "recency" are easily swayed by the latest and greatest investment fad, causing

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What's Inside

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them to want to divest from an underperforming asset class or fund and replace it with one that has recently outperformed.

Individual investors have traditionally violated the basic market principle of "Buy Low and Sell High" by doing precisely the opposite. When the markets have been rising and are reaching new highs, the public gets excited and wants to join the bandwagon—they buy stocks at high points. Then, in periods when the markets are having difficulty and approaching new lows, the public loses patience and sells — when prices are at their worst. At one time or another, most of us have fallen prey to this emotional cycle of "greed" (wanting to get in on the good times) and "fear" (trying to avoid disaster when the news has been bad). When emotion takes hold, it rarely serves investors well.

You can either fall prey to the irrational mistakes most investors make, or you can establish and follow a disciplined, well-diversified investment process

There are two ways to deal with these typical investor tendencies. One is to succumb to these psychological and emotional mistakes. One might try to anticipate market directions — seeking to buy when markets are poised to rise and sell just as they start to decline. The overconfident investor is certain this can be done. Others have faith that their brokers and the big research departments behind them will be able to gauge the market's future direction or identify the next hot stock that will beat the market. This choice is for the gullible. It doesn't work — for anyone. If someone could consistently and reliably accomplish this feat, it is safe to say their services would not be available to your average retail investor.

That leaves us with Choice Number Two—having a disciplined process and sticking to it. We write an Investment Policy Statement for each client to lay out our strategy and process and to make sure the client understands it and agrees to it. In less rational moments, the IPS serves to remind us of our original plan— stay well diversified, manage portfolio risk and allow the markets to grow our portfolios with time.

There is a science to diversification and applying it is part of the discipline. "Correlation" is a statistic that measures how closely any two securities or groups match one another in regards to when they move up or down and to what extent. A positive "1" indicates a perfect matching, whereas "-1" occurs when the two assets mirror one another (when one is up the other is down, both by the same amount). A correlation of "0" indicates that the movement of one has no relationship to the other. In building portfolios, we try to include assets with low correlation. While each asset may generate positive returns, when and how these returns are achieved differs. When you combine assets that have low correlation, they work as a team to offset one another's volatility, typically, without reducing returns. As a result, over time, the portfolio achieves market returns but with less volatility.

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- You are in the public eye – a CEO, senior executive, celebrity, or sports figure.
- Own rental property or a vacation home.
- Own a dog, especially a higher risk breed.
- Transport others, particularly children or the elderly
- Have teenagers, especially those of driving age.
- Entertain others at your home.
- Own a boat or snowmobile.
- Serve on a board of directors, homeowners association or nonprofit board.
- Own property on a steep hillside where landslides are a possibility.
- Employ domestic help and/or occasional workers.
- Possess firearms.

We recommend that you review your risk factors as a measurement of probability. Insurance consultants typically recommend that affluent individuals and families who have five or more risk factors should consider an umbrella policy of at least $5 million. Those with six or more may need $10 million of coverage or more.

Because there is no single answer for everyone, the amount of liability coverage you need depends on your circumstances and tolerance for risk. Can you afford to pay the cost of a claim out of pocket or would even a modest claim threaten your finances? If you already have liability coverage, it's important to ensure that your liability limits are high enough and that no gaps in coverage exist. If you'd like some help, please call us.

Naming the Right Person as Your Executor

An executor (or Personal Representative in some states) is the person who is responsible for administering your estate and carrying out the provisions of your Will. The executor is responsible for distributing any charitable and personal gifts, as directed by your will, once all expenses of the estate have been paid. The executor's job includes paying all debts, taxes, funeral costs and other necessary expenses of your estate (your estate consists of all of the property you own at death that is held outside of any trust you may have). Once the estate is fully distributed, the executor then must file appropriate forms with the court and apply to have the estate closed. A useful checklist outlining typical duties of an executor can be found at: www.usaaedfoundation.org/family/fam_duties_executor.asp/.

Choosing an executor should not be done without careful consideration. You'll want an executor who will be able to deal with all estate beneficiaries in a way that will avoid friction and foster any needed compromises and agreements among them. You'll want someone who will work diligently and efficiently so that everything is done on time — avoiding unnecessary court delays and continuances. The position requires attention to detail and an ability to deal with numbers, personal finance issues and complex situations. The tasks can be time consuming and tedious to carry out.

An executor has complete authority over the administration of your estate. Ideally, the person you name should be someone who is financially competent and who also understands your family's dynamics. Often, a spouse is named as the executor. If there is no spouse or if that person is incapacitated, lacks financial understanding or otherwise needs assistance with the management of the estate, a child, sibling or family friend might be named alternatively (or might be named as a co-executor along with the spouse).

You should ask the following questions about the person you are thinking about naming: (1) Do I trust this person to handle the financial affairs for my beneficiaries? (2) Has this person ever had financial problems of their own? (3) Would they get along with the beneficiaries, and how would they handle conflict? (4) If I name co-executors, can the co-executors work together in harmony? (5) Will they accept advice from the estate's attorney, or will they be uncontrollable, acting without consideration for the consequences to the estate and the beneficiaries? Naming one family member over others to act as the final arbiter of money issues can itself create conflict and sometimes results in splitting families apart.

In larger estates, a bank or trust company might be considered for the executor role due to their expertise in handling complex assets and their ability to be objective in dealing with family members. They are familiar with the legal requirements and can help ensure compliance with required regulations. They also specialize in administering the transfer of closely held businesses and partnership interests. There is a cost for this expertise. Naming a bank or trust company typically runs 1 to 3% of the overall value of the estate assets.

A better alternative available to our clients is National Advisors Trust Company (NATC), which will happily serve either as the sole trustee/executor of your estate or as a co-trustee with a named family member (while handling most of the administrative work). NATC's charges for trust services start at about 0.35% and go down as the size of the estate rises. If you appoint a traditional bank or trust company, they typically take over all the legal, tax and investment activities along with administering the estate. If you name NATC in your estate planning documents, Mosaic can continue to manage your investment assets and your local attorney and accountant can also continue to serve your family. This allows people who are more familiar with your affairs to continue to work on your behalf. Thanks to our status as shareholder, Mosaic is one of only a handful of premier firms around the country to be able to offer the services of NATC, a national trust company with nearly $5 billion in assets.

You have probably given a lot of thought to how you want your estate assets pass at your death. You don't want to put someone in charge of your estate who might derail the very plans you've carefully considered. While being named an executor may seem an honor, many people are ill-prepared for the complexity and commitment that are often required. If you'd like to know more about how to name NATC as a co-executor of your estate or as a trustee of one or more of your trusts, call us.

AROUND THE OFFICE

Congratulations: *Norm Boone* and *Linda Lubitz* (now Linda Lubitz Boone) were married in Sedona, Arizona on April 29. They enjoyed a few days at a beach resort on the Pacific northern coast of Costa Rica before returning to a whirlwind tour for mostly business reasons of Miami, San Antonio, New Orleans, Little Rock and Las Vegas. They'll continue for the foreseeable future their bi-coastal life necessary to support Mosaic in the Bay Area and the Lubitz Financial Group in Miami.

Because many people have expressed an interest in sending a congratulatory gift and because at this stage in their lives Norm and Linda don't really need any more towels or toasters, they have set up a charitable fund in lieu of wedding gifts. For more information and to see pictures of their wedding, visit their website at www.LindaAndNorm.com.

Mosaic Financial Partners, Inc. was the featured financial planning firm in the national May newsletter issue of Virtual Office News. The article highlighted the many ways in which Mosaic has employed technology and out-sourcing to bring services to its clients.

At the Podium: *Norm* and *Linda* spoke in May in Las Vegas to the annual conference of the International Association of Registered Financial Consultants on the importance of using investment policy statements in their practice. In late May they'll be presenting a similar talk to the annual Northern California Financial Planning Association conference. At that same conference Norm will also be presenting about uses of technology in a financial planning practice.

Education A Continuing Affair: In May, *Holly Gillian Kindel* and *Sabrina Lowell* traveled to Galveston Texas to participate in the Financial Planning Association's annual Retreat. It is an intensive three and a half days of discussion, seminars, lectures and peer interaction. By the way, they enjoyed themselves, too.

Furthering the Profession: *Kevin Gahagan* continues his work as Chair for the FPA's national conference that will be held in Seattle this September. *Sabrina Lowell* is also working on the conference organizing the insurance educational sessions. *Kevin* is participating as one of the founding members of the FPA's Diversity Task Force. This group has two missions — to increase diversity in the planning profession; and to increase access to planning for traditionally under-served communities.

Giving Back to the Community: *Norm* continues to serve on the board of trustees for the Saybrook Institute, a highly regarded graduate school based in San Francisco granting masters and PhD degrees in humanistic psychology and related fields. Norm is also serving as chair of the professional planned giving task force of the East Bay Regional Parks Foundation.

David Lawrence recently spent two Saturdays helping low income families complete and file tax returns with Tax-Aid, a non-profit dedicated to providing free income tax preparation throughout the Bay Area. Tax-Aid places a special emphasis on increasing access to the Earned Income Credit and the Child Tax Credit for low-income tax filers.

In February, *Janette Rodriguez* and *Matt Szarka* volunteered at SF Connect which partners with over 1000 community volunteers, city government and non profits to provide a one-stop shop of health and human services for the homeless.

Employee Spotlight – Geoff Zimmerman, CFP ®

Geoff joined Mosaic in April as a Client Advisor for our Lafayette office. He brings to our firm 18 years of experience in banking, brokerage and financial planning. Geoff started his career at American Express Financial Advisors and, in 1995, joined Charles Schwab & Company as an Investment Consultant. He later became Schwab's Bay Area Regional Financial Planner where he worked primarily with business owners, corporate executives, and clients going through transitions in their lives. More recently, he designed financial planning services related to employee stock options and other forms of equity compensation for Wells Fargo Bank. Geoff, who is a Certified Financial Planner® practitioner, graduated from U.C. Santa Barbara with a degree in Economics and Mathematics. He lives in the East Bay with his wife Lynn and their dogs Chester and Molly. Geoff and Lynn enjoy a wide range of activities and hobbies including baseball, photography, theatre, bicycling, travel and the occasional bottle of good wine.

Lifestyle Inflation May Imperil Your Retirement

As financial planners, we frequently observe that clients' spending rises as their incomes grow. As our incomes and wealth increase, activities and items once considered luxuries or discretionary become part of our basic lifestyle. This "lifestyle inflation" can seriously imperil the pursuit of financial independence.

Simply stated, financial independence is having enough financial resources to make paid work optional. "Retirement" generally means you stop working. Financial Independence however, means you may or may not stop working, but you could if you wanted to. As planners, we perform a Capital Needs Analysis (CNA) to determine how close or how far away a client is from attaining financial independence — and if not there yet, what steps need to be taken to get there. The CNA calculation involves a number of critical assumptions: spending and savings levels, inflation, the rate of returns on investments, your longevity/mortality, and the availability of other income sources are all examples of variables used in the CNA. Interestingly, the relative importance of these variables changes over time.

As an example, let us assume a hypothetical 45 year old couple have an investment portfolio worth $1.5 million, they expect to live until age 90. They want to reach financial independence by age 60 with ongoing lifestyle expenses of $10,000 per month (adjusted for inflation) . We'll also assume that inflation averages 4% and that the after-tax investment rate of return is 6.5%.

Given these assumptions, our hypothetical couple will actually spend $18,200 per month in their first year of retirement ($10,000 in today's dollars). To continue this lifestyle for 30 years of retirement, they will need almost $4.7 million of after-tax assets by age 60 to meet their goal. Their CNA shows a shortfall of $700,000, which can be addressed with an additional $2,500 per month savings, which the couple agrees to do.

Let us fast-forward 10 years. The savings program has been followed diligently. Over the 10 years the couple has received promotions and raises, which has allowed them to join a local country club, subscribe to season tickets for the theatre and a local sports team, and start a gourmet-cooking club with a number of close friends, all at a cost of $1,000 per month on top of their "old" lifestyle. With retirement five years away, the couple visit their planner (after ten years) and they are surprised to learn they are once again short of their target. Their new lifestyle requires more capital than had been originally planned. They now have a choice of cutting back their budget to the "old" level or to begin saving an additional $5,000 per month to be financially independent at 60 but with their new lifestyle.

What can you do to avoid the fate of our hypothetical couple? Here are some suggestions that have worked well for our clients in the past:

1. **Use a cash management program** (e.g. Quicken, Microsoft Money, or a spreadsheet program) to identify, categorize and track your expenses. Using broad expense categories (e.g. utilities) and avoiding highly detailed descriptions (e.g. water, electric, trash, etc) will make the expense tracking easier. Too much detail may obscure the bigger picture.

2. **Use a dedicated checking account for your lifestyle expenses.** Fund it with only the amount you expect to spend. Any remaining funds should go to your investment account. This approach keeps your spending on track, takes excess dollars out of your hands so they won't be spent, and puts those dollars to work for you. By funding your checking with a target amount, you will quickly identify whether or not you are staying on track with your spending (based on whether you run short and have to dip into your investment "well").

3. **Consolidate spending onto one credit card**. Writing one check rather than many can make bill paying easier. Many companies provide periodic and year-end summaries of expenses, which will be more meaningful if it contains most of your spending.

4. **Review your CNA cash flow assumptions annually and update your plan periodically**

. Most clients go through a material life-changing event every two to three years, on average. These events often affect the assumptions used in creating a financial plan. Keeping your plan current helps you stay on the appropriate track. When changes happen in your life, please notify us so that we can update your plan and help you take the actions needed to keep you moving towards your goals.

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Thoughts to Live By

"Opportunity is missed by most people because it is dressed in overalls and looks like work." - Thomas Edison

'Excellence is to do a common thing in an uncommon way." - Booker T. Washington

"We live in a moment of history where change is so speeded up that we begin to see the present only when it is disappearing." - R.D. Laing

"The price is what you pay; the value is what you receive." - Author Unknown

"It is not wealth one asks for, but just enough to preserve one's dignity, to work unhampered, to be generous, frank and independent." - W. Somerset Maugham

"The optimist proclaims that we live in the best of all possible worlds, the pessimist fears this is true." - James Branch Cabell