MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

August 2007 www.MosaicFP.com

What Should You Do About Stock Market Volatility?

As I was running on my treadmill one early August morning watching the opening bell on the Bloomberg stock market channel, the Dow Jones Industrial Average was down 200 points in the first seven minutes. The day before, the Dow was up over 150 points. It certainly seems like the stock market is more volatile lately. If so, what should we be doing about it?

The reasons for the daily market volatility vary. Recently, much of the volatility has been due to liquidity concerns related to the sub-prime mortgage problems. But the next big movement up or down may be caused by some other concern or source of elation. We're also seeing huge amounts of cash moving in and out of the markets on very short notice. This type of rapid trading activity is done by "speculators," not long-term "investors." In an attempt to gain an advantage, some large hedge funds are placing huge bets on the short term direction of the market (often with borrowed funds). If you are a long-term investor putting aside money for your retirement, do you really care what the market does in the next 25 minutes?

The markets may appear to be more volatile on a daily basis, but if we look at monthly history, the relative volatility has actually been dropping. Take a look at the chart on page 2 showing the returns and volatility (as measured by "standard deviation") of the Standard & Poor's 500 Index over the last few decades.

Note that US stock returns in the first decade of the 21st century to date have been disappointing — largely due to the three year market drop from 2000-2002. At the same time, the standard deviations of the monthly returns have also been lower than they were in the 80's or 90's. International stocks show a similar pattern

(Continued on page 2 —Volatility)

Too Much Junk Mail?

We all get unwanted mail. In fact, the average adult receives 41 pounds of junk mail each year (about 560 pieces). A new service is available to stop most common junk mail such as credit card offers, coupon mailers, sweepstakes entries, magazine offers, insurance promotions and unwanted catalogs.

Users of "41 Pounds" see a noticeable improvement soon after registering. Eventually, your junk mail could be reduced by 80% or more.

Along with making life more pleasant, reducing junk mail also helps our planet. A significant portion of household waste consists of junk mail — 44% ends up unopened in landfill. Over 100 million trees are destroyed each year to produce junk mail. The energy equivalent to 2.8 million cars and about 28 billion gallons of water are used to produce and dispose of junk mail each year.

Our suggestion: you can register online at www.41pounds.org or you can enroll by calling toll-free (866.417.4141). The whole sign-up process takes less than five minutes. 41pounds.org will stop your junk mail for five years (at a cost of $41 for the service). One third of your fee also goes to an environmental or community organization of your choice.

What's Inside

Charitable Contributions from your IRA

If you are over 70½, the IRS is giving you a one-time opportunity to lower your tax bill. You can do so by making a charitable contribution of up to $100,000 with funds from your IRA.

Any amount you contribute under this program will not be included as income on your tax return — but it will count toward your minimum distribution. Because your gift will be completely excluded from income, there will be no charitable tax deduction associated with these IRA gifts. Still, by excluding the IRA distribution from income, you may be able to make a larger charitable donation while still keeping your taxable income lower than it would otherwise be.

As a caution, before you make any charitable distribution, you should be sure that your own retirement and estate planning needs are fulfilled. If this is so, then this program can be particularly helpful to people over 70½ who have especially large IRAs and don't really need the required IRA distribution for their income needs or for those who are going to be making charitable contributions anyway. If you fall into either of these categories, this can be a very attractive benefit.

You will need to meet these additional program criteria:

- Amounts in SEP IRAs and SIMPLE IRAs are not eligible if you are still making annual contributions to the account.
- Distributions arising from non-deductible IRA contributions or a Roth IRA can't be included.
- The donation must go to a legitimate charitable organization. This IRA exception does not apply to donor-advised funds or private foundations.
- A maximum $100,000 donation per IRA owner. For married couples filing jointly, both spouses can give up to $100,000 from their respective IRAs. No gift splitting allowed.
- Direct transfers from IRA to charity are required, or checks can be made payable to the charity and delivered by IRA owners.
- **Transfers must be delivered to the charity by December 31, 2007**

Call us if you would like to explore whether or not this is a benefit you should be using.

(Continued from page 1—Volatility)

	Mean Return	Std Deviation
1980's	17.55%	19.39%
1990's	18.20%	15.84%
2000 to 7/2007	1.52%	14.38%

over the same period— return volatility has been declining over the last three decades. One factor that makes volatility seem so high these days is simply the fact that with the market levels so much higher today, a 2% swing in market value involves a much larger jump than it did when the market levels were much lower.

Volatility is a natural part of investing. Historically, both the US and International stock markets have gone up about 2/3rds of the time. Trying to "time" when to sell and when to buy back typically proves treacherous. Much of the market's return occurs in large movements — often unexpectedly. You can easily miss large returns (permanently) if you have exited the market and are sitting in cash when that move occurs.

Interestingly, market volatility actually creates some investment opportunities. We "rebalance" your portfolio when one of two things happen:

1) When one part of the market is doing much better or worse than the rest of your portfolio, we have an opportunity to sell the better performing asset class and buy the lesser performer. While this seems counter-intuitive, studies have shown that rebalancing in this way significantly improves returns.

2) You can also take advantage of market volatility by adding to your portfolio on a recurring basis. This allows us to maintain your target allocation by using your new cash to buy whichever part of your portfolio is "on sale."

The bottom line: try to ignore the day-to-day movements in the stock markets. Remember that you are an investor and not a speculator . If hedge funds want to try to time the market, let them— stay focused on your long term goals instead. Watching the daily movements of the markets only serves to raise your blood pressure and move your attention away from what is important.

By David Cowles, Director of Investments

Do You Owe Estimated Taxes in 2007?

Who Must Pay Estimated Taxes?

Taxpayers calculate their income taxes each year based on their total income. Wage earners pay most or all of their taxes via their payroll withholdings. But taxpayers who have significant income not subject to withholding will generally be required to pay quarterly estimated taxes. Examples might include income from investments or rentals, non-salaried business income, Social Security or alimony.

As a general rule, you must pay estimated tax for 2007 if both of the following apply:

- You expect to owe at least $1,000 in tax for 2007, after subtracting your income tax withholding and credits from your total tax (do not subtract any estimated tax payments), and
- You expect your withholding and credits to be less than the smaller of:
  - 90% of the tax to be shown on your 2007 tax return, or
  - 100% of the tax shown on your 2006 tax return (110% if your 2006 gross income exceeded $150,000). Your 2006 tax return must cover all 12 months.

How much Estimated Tax do You Owe?

Broadly, you must pay four equal quarterly estimated tax installments. You must pay enough estimated taxes plus withholdings to satisfy any one of four "safe-harbor" guidelines.

- If your 2006 adjusted gross income is $150,000 or less, you should pay in at least the tax liability number shown on last year's return.
- If your 2006 adjusted gross income was over $150,000, pay at least 110% of last year's tax liability.
- Regardless of your income level last year, it is acceptable to pay at least 90% of whatever this year's tax bill turns out to be. Obviously, this requires some guesswork on your part.
- Finally, if this year's income starts off low and ends up high (say because you have huge fourth-quarter capital gains), you should probably use the "annualized method." This is an exception to the general rule that your four estimated tax payments should be equal and permits the estimated payments to correspond to your income. Because this is a more complicated calculation, we recommend working with your CPA to ensure you avoid a penalty.

You are free to use whichever of the above safe harbors does the best job of minimizing or deferring your estimated tax payments. If you fail to fail to satisfy these safe harbor tests, then you'll owe interest and possibly penalties on top of your taxes.

When Do You Pay Estimated Taxes?

For the purpose of estimated taxes, the IRS divides the year into four payment periods. You may pay your 2007 estimated tax in four equal amounts according to the following schedule: April 15, June 15, September 15 and January 15. Full payment is due April 15. If you missed one or both of the first two, then talk to your tax advisor so you can mitigate possible penalties.

Payment Possibilities

You may be able to minimize your estimated tax payments by doing one or more of the following:

- Use your tax refund—apply it to your 2007 estimated payment.
- Increase your salary withholding to lower or eliminate your estimated taxes by filing a new Form W-4 with your employer.
- Finally, you can minimize interest-charges by catching up on your estimated tax payments as soon as you can. If you miss a payment, double up the next one so you'll only owe a few months' interest, not interest over the full year.

Need Help?

If you're not sure whether you are on track with your estimated tax payments, you should consult with your tax advisor as soon as possible. If you wait until later in the year to catch up, you could face a late payment penalty, even if the total amount you pay covers your tax liability. We recommend evaluating the need for an estimated payment each quarter.

Around the Office

Congratulations: In May, both **Norm Boone** and **Kevin Gahagan** were each recognized by the San Francisco Business Times as among the "Bay Area's Top 25 Independent Wealth Advisors." **Kevin** was also recently elected to be President of the Board for the Estate Planning Council of Diablo Valley for the 2007 – 2008.

At the Podium: Norm spoke at the California CPA Education Foundation's Personal Finance Day in Los Angeles and in San Francisco in July on "Helping Clients Address Risk." **Norm** and **Linda Lubitz Boone** spoke at the same events on the importance of having an effective written investment policy. **Norm** and **Linda** gave a similar talk in May to the Annual Nor Cal Financial Planning Association Conference. Norm also spoke at that conference on technology innovations to enhance business effectiveness. In late May, **Kevin** addressed the Diablo Investors Forum where he spoke on "Investment Strategy for the Decade Ahead." In June, **Dave Cowles** traveled to New York to speak at a conference of investment professionals on the latest trends in the world of Exchange Traded Funds (ETFs) and the recently introduced Exchanged Traded Notes (ETNs). In July, **Sabrina Lowell**, presided over the NexGen conference in Minnesota. As the 2007 NexGen president, (a national organization of financial planners under the age of 35) **Sabrina** facilitated a Circle Gathering to jump-start dialogue between members; she also participated on a financial planning software showcase panel discussing trends and issues with industry software.

Education a Continuing Affair: Janette Rodriguez completed the College of Financial Planning's Registered Paraplanner Course work and is preparing for the exam. In July, **Kevin** and **Susan Morse** attended the 3rd Annual Alternative Investment Forum presented by J.P. Morgan. The forum includes presentations and educational sessions on product developments and emerging investment strategies in the "less traditional" segments of the investment universe.

Furthering the Profession: Sabrina was recently named Chair of the 2008 NexGen conference. In June, she was selected as a Program Co-Chair for the FPA's NorCal Conference. **Sabrina** was also nominated for the FPA's 2008 National Board of Directors (congratulations!). **Holly Gillian Kindel** is serving on the conference task force for the FPA's Business Solutions Conference to be held in Chicago in March 2008. Holly will be helping to design the human capital track by planning educational sessions and securing speakers.

Employee Spotlight—Benson Choy

Benson is an Associate Planner with Mosaic Financial Partners, Inc. As an Associate Planner, Benson assists in developing and updating financial plans for our clients. He also works with our account custodians in establishing new accounts, coordinating account transfers and initiating disbursements. Benson is currently taking classes toward a CFP® designation.

Prior to joining Mosaic, Benson worked at the National Association of Security Dealers (NASD) where he facilitated the resolution of hundreds of securities-related arbitration claims filed by investors. As a result of this background, Benson places great emphasis on integrity, objective advice, and customer service.

Along with his work for Mosaic, Benson is the volunteer coordinator of the Financial Planning Association of San Francisco's Pro Bono Committee.

Benson graduated from Deerfield Academy in Massachusetts and Occidental College in Los Angeles. At Occidental College, Benson earned his degree, with honors, in Economics and minored in Psychology. He has lived several years abroad in the Middle East and Asia. In his free time, Benson and his wife, Mariko, enjoy traveling, cooking, scuba diving, and spending time with their pet parrot.

Tips for Boosting Your Credit Score

Your credit score (or FICO score) is a very important number. The interest rate you'll pay for the money you borrow will be determined, in large part, by this three-digit number, generated from the information in your credit report. Most lenders place a major emphasis on your credit score. If their best rates are offered to borrowers with a FICO of 700 or higher and yours is a 698, those two points could cost you thousands of dollars.

According to www.myfico.com, the consumer web site of the Fair Isaac Corp. that created the FICO score, the interest rate difference between those two scores is typically one-half percentage point. Fall below a 675 and the rate goes up another 1/2 percent. Most lenders today practice tiered pricing, with interest rates rising as FICO scores decline. Each lender chooses its own "break points" between tiers. So it is not only important to do all you can to improve your credit score, but its often helpful to shop thoroughly when looking for a mortgage or loan.

A first step you can take is to request your credit report and review your credit score (you can visit www.annualcreditreport.com or call 800-322-8228 to request your report). If your credit score is above a 720, that's great. But if you are below 700 you'll want to find ways to improve your score.

In reviewing your credit report, look for errors in the report. These can include listing accounts that aren't yours, payments mischaracterized as being late, debts that you've paid off but that still show as outstanding, or old debts that should no longer be reported (negative credit account data is supposed to be deleted from your record after seven years — except for bankruptcies, which can remain on your credit report for as long as 10 years).

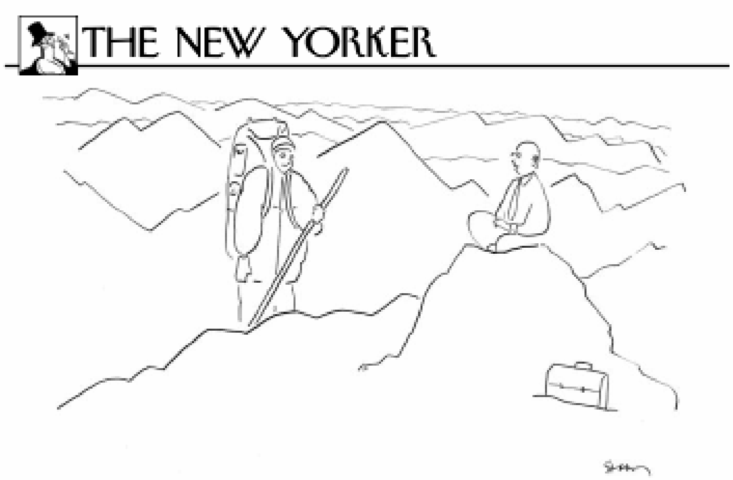
After repairing errors, the fastest route to a better score is to pay down balances on credit cards. This can increase your credit score by 20 points.

Have you had a few late payments in your past? You can improve your credit score (or maintain a positive credit score) by paying every bill on time and keeping your outstanding balances low.

One thing you shouldn't do if you're just trying to boost your score is close unused accounts — it won't help your score and it actually count against you. Closing unused accounts without paying down your debt changes your "utilization ratio." This is the amount of your total debt divided by your total available credit. If your utilization ratio is too high, you can appear to be closer to maxing out your accounts — and this costs you on your credit score. If you do close accounts, be sure to leave the oldest ones open. The length of your credit history is another factor in your score.

If you tend to keep balances on your lines of credit or credit cards (and we recommend against it), it can help your credit score if you spread out your balances and charges between a few cards. It's better to have a few cards with 20-30% usage (when compared to your credit card limit) as opposed to having just one card with an 80-90% balance.

If you are seeking a loan and need to upgrade your credit score in a hurry, you can look for a lender who is a customer of a "rapid rescoring service." These services can help you get new information posted to your credit report within 72 hours causing your FICO score to be recalculated.



"No, but I can tell you the meaning of whole or term life insurance."

MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm
140 Geary St., 6th floor
San Francisco, CA 94108
www.MosaicFP.com

Thoughts to Live By

Nobody will believe in you unless you believe in yourself. - **Liberace**

"The relationships we have with the world are largely determined by the relationships we have with ourselves." -- **Greg Anderson**

"Shoot for the moon. Even if you miss it you will land among the stars." -- **Les Brown**

"Luck is the by-product of busting your fanny." -- **Don Sutton**

"Take action every day - some small dose at a time." -- **Jeffrey Gitomer**

"Before beginning a hunt, it is wise to ask someone what you are looking for before you begin looking for it." -- **Winnie the Pooh**