

How is the Cash Portion of My Portfolio Managed?

Most of our clients' Investment Policy Statements include a 1% target allocation to "Cash". The purpose of holding a permanent Cash allocation is three fold. First, it provides a minimum level of liquidity for withdrawals. It also represents a portion of your investments that maintains a stable value and thus reduces the overall volatility of your portfolio. Finally, it funds the deduction of the investment management fee.

If you are taking recurring withdrawals, we will increase the Cash allocation to a higher percentage of your portfolio that represents approximately six months worth of planned withdrawals. This ensures that there will be enough liquidity when you need it. In addition, we normally set up the primary taxable account with a "margin" feature that allows you to write a check on your account for unexpected needs without risking the possibility that the check will bounce due to insufficient funds.

Your cash allocation is invested in a sweep money market fund offered by your custodian (e.g., Schwab, Fidelity, TD Ameritrade). All deposits made to the account, plus any dividends or interest received, and the proceeds from selling existing investments are automatically "swept" into the fund where they earn interest. For example, the recent yield on the Schwab Advisor Cash Reserves Premier fund was 4.85%. For clients in the highest marginal income tax brackets we usually recommend using a municipal money market fund, such as the Schwab CA Municipal Money Market fund (recent yield = 2.93%) since these dividends are free from both Federal and California state income taxes. If you are in a slightly lower tax bracket, we can run the numbers to determine which fund will

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In Light of the San Diego Fires: Are you Insured?

The devastating fires that raged across Southern California serve as a vivid reminder that everything we value is at risk. While certain losses are clearly irreplaceable, for all others there is insurance. According to California Insurance Commissioner Steve Poizner, the owners of as many as 25% of the homes destroyed last month were underinsured.

How much coverage is needed? – Since the fundamental purpose of insurance is protection against catastrophic loss, ask yourself what level of self-insurance (your out of pocket expenses) would be acceptable.

Check your policy regularly, even if no explicit changes to your home or its contents have transpired. Your policy should reflect the current value of your home and belongings. If, for example, you just added a bathroom, you will need more coverage. Also, checking your coverage annually will ensure that your policy reflects the changing value of your home.

Insurance firms no longer write policies that guarantee full coverage for all rebuilding costs. You must specify a replacement value for your policy – and

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result in the highest “after tax” yield for you.

Unless you are taking distributions from your retirement accounts, we usually keep these accounts fully invested and avoid any cash balance. When we purchase mutual funds in these accounts, they are coded to “reinvest” all dividends into additional fund shares. This prevents a cash balance from building up and also saves on transaction fees since you don’t need to pay for small dollar purchases of additional securities. Taxable accounts, on the other hand, are coded to pay all distributions in cash. This replenishes the cash balance to cover any prior withdrawals and maintains the cash target. As a side benefit, taking dividends in cash also makes income tax reporting a little easier since each

individual reinvested dividend is technically a small purchase and each one has to be reported separately on Schedule D to calculate capital gains when the fund is sold.

We review all client deposits and withdrawals on a daily basis and compare the resulting cash balance to your target allocation. If your deposit results in having too much cash, we will invest the excess in one of the other asset classes that is currently under its target allocation. If a withdrawal causes the cash balance to fall too low, we will sell securities to replenish the cash. We normally select securities to sell from an asset class that is over its desired allocation but we also try to minimize the capital gains that will result.

Please, call us if you have any questions.

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given the significant rise in home prices, the annual inflation adjustments included in many policies are simply inadequate. It’s important to understand that with only some exceptions, all expenses incurred beyond your policy’s replacement value will be out of your pocket.

What isn’t fully covered? – Most policies pay to replace the home as it was – even if it did not meet today’s building codes. If your house is more than 20 years old, check your policy to see whether it covers building code upgrades. If not, it can be added.

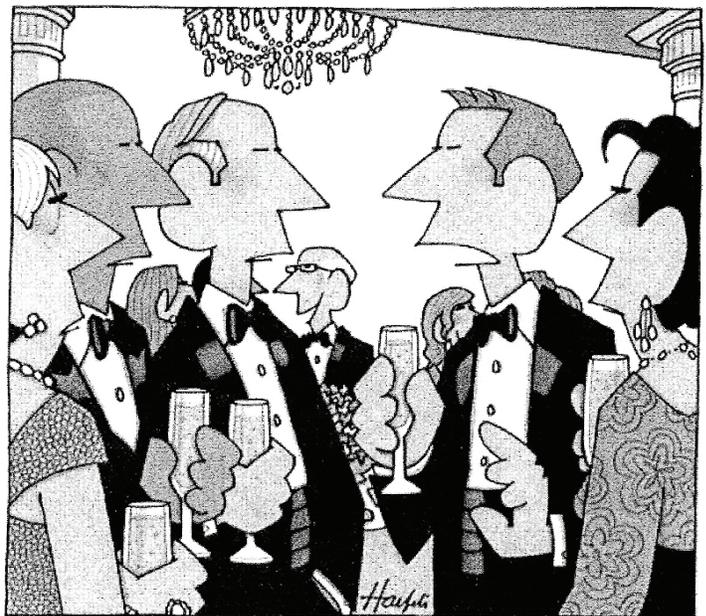
A detached garage, guest house or shed on your property is sometimes covered under a section of your policy headed “separate structures.” This coverage is usually limited to 15% to 20% of the limit for the main dwelling. If that’s an insufficient amount, call your agent to buy a rider or boost the overall coverage.

The standard policy automatically covers your belongings in your home – usually up to 50% to 75% of the dwelling coverage. Your homeowner’s policy may provide only limited coverage for expensive items such as electronics, antiques, artwork or jewelry. If the limit would make it impossible to replace a prized possession, ask your insurance agent about a rider to cover these individual items.

How do I prove what I lost? – Create a detailed home inventory showing what your property is like and what is in it. Because listing everything can be time-

consuming, create a video inventory, starting on the outside of your home, panning inside each room including the contents of closets and drawers. Locate receipts for major purchases, such as art, electronic equipment and appliances.

It is imperative that you are able to provide the required documentation in order to be fully covered if the need arises. – Keep your policy and inventory in a bank safe-deposit box or give them to a close friend or relative who doesn’t live nearby. Please call us if you’d like to discuss an insurance review.



“You can’t learn the path to financial independence from just any infomercial”

Are You Set for the End-of-Year?

December 31 is just around the corner. There are a number of smart financial moves, some of which take time to implement, that must be completed by the end of the calendar year. Our fundamental year-end tax-planning goal remains the same – to reduce taxes or to postpone them to a later day.

Deadlines to Set-up a 2007 Retirement Account:

- December 28, 2007
 - * Profit Sharing Plans
 - * Solo or Individual 401(k)s
 - * Company 401(k)s
- April 15, 2008
 - * IRAs
 - * Roth IRAs
- Tax-filing deadline (including extension)
 - * SEP-IRAs

2007 Retirement Plan Contribution Limits:

- 401(k) = \$15,500 + \$5,000*
- Solo or Individual 401(k) = \$45,000 + \$5,000*
- PSP and SEP IRA = lesser of ~25% of compensation or \$45,000
- IRA or Roth IRA = \$4,000 + \$1,000*
 - * catch-up allowance for ages 50 or older

Tax Planning Opportunities:

♦ **Custodial Accounts and Gifting** – The annual gift exclusion for 2007 is \$12,000. Consider funding a custodial or college savings plan (529). You can combine your gifting limits by pre-funding your 529 account with five years of gifting in one year for a total of up to \$60K. UTMA and 529 college savings plan accounts may be set-up at anytime.

♦ **Required IRA Distributions** – Those who are 70 ½ and older are required to take minimum distributions from their IRA accounts. *If you have not already satisfied your 2007 distribution requirement, and we have not contacted you, call us by the end of November to make arrangements.* Remember: if you have IRA accounts outside Mosaic's management, required distributions from those accounts must be included in your calculation.

♦ **Charitable Giving** – If you would like to make a tax-deductible gift for 2007, to maximize tax efficiency we typically advise making charitable contributions of appreciated assets (most often, stock, mutual funds or real estate).

*Transfers of shares can be sent directly to your designated charity or wired to their brokerage account.

*Donations to a Donor Advised Fund

*Qualified Charitable Distribution from your IRA – those over the age of 70 ½ may distribute up to \$100,000 to a charitable organization without incurring income tax on the distribution.

(Charitable gifts must be completed by the end of the calendar year. To transfer gifts from a custodian (e.g., Schwab, Fidelity) be sure to make your requests by December 7)

♦ **Roth IRA Conversion** – If your adjusted gross income is less than \$100,000, you may be eligible to convert part or all of your traditional or rollover IRA to a Roth IRA. While taxes may be payable, all future growth, earnings, income, and withdrawals from a Roth IRA will be tax-free; this can be quite attractive for those who expect to be in higher tax brackets in the future than they are this year.

♦ **Strategic Timing of Income and Expenses** – The general rule is to try to move income into 2008 if it can be delayed. Some other ways of minimizing taxes:

*Depending on changes between your 2007 and 2008 tax situation consider deferring bonuses or additional income until after December 31 .

*Defer or group expenses such as professional fees, medical expenses, or mortgage expenses into one year.
*Consider making your January mortgage payment in December to accelerate the interest deduction.

*For people who expect to be in a higher tax bracket in the future or for those in AMT, the opposite advice is true. Try to increase your 2007 income. In the latter case, it is better to pay tax at today's lower rates or accelerate income for AMT purposes.

♦ **Tax Loss Harvesting** – Mosaic looks for tax-loss harvesting opportunities in your portfolio every quarter. Additionally, if you have not yet done so already, please provide Mosaic Financial Partners with your 2006 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 your Advisor or our Client Services Manager, Janette Rodriguez at 415.788.1952. We'd be happy to assist you with end-of-year planning issues.

AROUND THE OFFICE

Congratulations... We're very proud to congratulate **Kevin Gahagan** and **Norm Boone** who were both recently named among the country's top advisors – **Kevin** by Reuter's AdvicePoint and **Norm** by Barron's. Congratulations go to **Holly Gillian Kindel**, who in October was selected Outstanding Adjunct Financial Planning Faculty Member of the Finance and Economics Department by Golden Gate University's Ageno School of Business.

At the Podium... **Holly** traveled to Baltimore to speak about financial coaching to community based organizations that provide financial literacy and asset building programs to the working poor. In October **Sabrina Lowell** participated on a panel at Golden Gate University in San Francisco to discuss career paths in the financial planning profession. **Kevin** was a guest lecturer for Golden Gate University's financial planning program, speaking on risk management for individual clients. **Norm** and **Linda Lubitz Boone** travel to Korea in November to speak to the annual conference of the Financial Planning Association of Korea. **Norm** will give the keynote speech on Core Values of Successful Financial Planning Practitioners while **Linda** will present on techniques in advising professionals. In August, **Norm** and **Linda** also spoke on the importance of Investment Policy Statements to a gathering of financial advisors onboard the Celebrity Cruise ship in Alaska. They also spoke on financial planning for women for the Women's Forum of Barclay's Global Investors.

Education A Continuing Affair... **Norm, Kevin, Holly, Sabrina** and **Susan Morse** all attended the Financial Planning Association's national conference in

Seattle. Along with keynote sessions by Amy Chua ("World on Fire") and Chris Gardner ("The Pursuit of Happiness"), the conference presented a variety of technical sessions on investments, tax planning, insurance, and estate planning. **Dave Cowles** and **Susan** attended the Schwab Institutional Conference held in Las Vegas in late October. They were treated to numerous technical sessions on financial planning and investment topics. They also enjoyed hearing Steve Wynn, Chairman of Wynn Resorts, Fareed Zakaria, Editor of Newsweek International, and Bono, an "activist" working to solve poverty in Africa. **Holly** attended the International Coaching Federation's annual conference in Long Beach in late October. To learn more about new developments in structured products and their applications in portfolios, **Kevin** attended a Structured Products Conference in Berkeley in September. In October, he attended a two-day "Advanced Estate Planning Workshop." **Mary Ballin** finished her Estate Planning course and **Benson Choy** finished his Insurance and Retirement Planning courses toward earning their CFP designations. **David Lawrence** went to a seminar on advanced retirement and estate planning strategies.

Furthering the Profession... September saw the culmination of **Kevin's** efforts as Chairman of the FPA's national conference. The Seattle event was a decided success with over 3,000 attendees participating in a wide range of educational sessions. **Sabrina** was responsible for developing and overseeing the insurance educational sessions for that conference.

Norm's son **Andrew Boone** has joined Mosaic as the Special Projects Coordinator.

Employee Spotlight – Carmen Turner, CFA

Carmen Turner joined Mosaic in October as an Associate Planner, working closely with advisors to design and implement financial plans for our clients. Prior to coming to Mosaic, Carmen was a Senior Consultant Officer at Barclays Global Investors (BGI). Before joining BGI, she held senior positions in management consulting at BARRA and RogersCasey, institutional services at Liberty Investment Management, and in pension consulting at Wilshire Associates. Carmen previously served as a plan sponsor in her role as manager of Treasury Investments at Fluor Corporation.

Carmen has a BA in economics and business from the University of California, Los Angeles. She is a Chartered Financial Analyst, and is currently completing her requirements to become a CFP®. Relocating from Southern California (by way of Florida) over ten years ago, Carmen enjoys almost all things outdoors: hiking, biking, backpacking and kayaking.

We are very pleased to have someone with Carmen's extensive experience join our staff and continue to add to Mosaic's capabilities. Please say hello to Carmen when you are next in our offices.

Year End Strategies for Employee Stock Options

With the end of the calendar year upon us, now is the ideal time to begin planning or to update existing strategies around company stock options, stock appreciation rights and restricted stock. Because holders of these instruments often find their portfolios highly concentrated in their own company stock, proper planning and management of these assets is often critical to successful wealth accumulation and preservation.

Employees with stock options that are deep in-the-money and close to expiration who also have access to a Non-Qualified Deferred Compensation (NQDC) Plan will find November to be an excellent planning month. Open enrollment for NQDC programs typically occurs in this month, allowing eligible employees to coordinate participation in the plan with the cashless exercise of stock options to replace the salary deferrals. This tax-neutral strategy can reduce the risk of capital loss due to a decline in the price of the underlying stock and offer deferral of the income taxes that would otherwise be due at the exercise of the option to a later date – perhaps even until retirement or later.

December is an excellent time for stock option planning since reasonable estimates of regular income tax and Alternative Minimum Tax (AMT) for the year should be possible. Individuals who are not already in the top income tax brackets may wish to spread the exercise of Non-Qualified Stock Options (NQSOs) across multiple years to stay under the top income tax brackets. Individuals with Incentive Stock Options (ISO) whose regular income tax liability exceeds their

AMT liability may have leeway to exercise and hold some ISOs up to the point of triggering the AMT. Doing so will allow the clock to begin ticking for the long term capital gains treatment on the ISO shares, without triggering adverse tax consequences in the current year.

January and February represent an ideal time for initiating ISO exercise strategies. Doing so allows the remainder of the calendar year to weigh the investment merits of holding the stock and the potential for long-term capital gains treatment against the risk of price declines, and AMT considerations. Should the decision be made to hold the shares past the end of the calendar year, the risk of paying both the AMT and paying ordinary income tax (due to the sale of immature ISO shares) is minimized through the relatively short time period between the end of the calendar year and the end of the required holding period.

Last but not least: While we have focused on strategies that discuss the potential for tax reduction or tax deferral, we believe that preservation of wealth is best achieved first through the building of a properly diversified portfolio. Minimization of income taxes, while important, should play a supporting role.

Mosaic can help you analyze, evaluate and develop strategies to integrate equity-based compensation into your overall plan. We also recommend consulting your tax professional for any detailed tax calculations and specific tax advice. Please call us if we can help you in this complex area of planning.

Holiday Shopping and the Diderot Effect

Before you go out and buy that state-of-the-art plasma television, designer china, or the latest fashions this holiday season, consider the potential consequences. According to the Diderot Effect (named after the 18th century French writer Denis Diderot who wrote a wonderful short story on the calamitous effects of buying a new dressing gown), when you buy one thing you inevitably buy more unnecessary items.

Say, for example, you buy that 60" High Definition Flatscreen Television. First you create sufficient space on your wall to install it. Then, you rearrange your sofa, coffee tables, lamps, etc. to establish the correct feng-shui in your living room. A week later, you notice

your lamps look really drab next to the fancy new television and the painting also looks dated. Before you know it, the new TV has led to updated living room furniture-costing you way more than you'd originally bargained. You get the idea.

So, should you be discouraged from shopping this Holiday Season? Not at all. It'd take much more than the Diderot effect to do away with shopping during the holidays. Continue the tradition – just be prepared to spend a bit more to tie everything happily together. And remember, if you can't really afford it, then do yourself a favor – put off buying it until you can.

Thoughts to Live By

"Good work done little by little becomes great work. Your house of success will be built brick by brick." - [Max Steingart](#)

"Self esteem means that no opinion and no judgment are so vitally critical to your own growth and development as that which you hold of yourself." - [Denis Waitley](#)

"There is nothing so useless as doing efficiently that which should not be done at all." - [Peter F. Drucker](#)

"It's easier to act your way into a new way of thinking than to think your way into a new way of acting." - [Millard Fuller](#)

"There is no greater challenge than to have someone relying upon you; no greater satisfaction than to vindicate his expectation." - [Kingman Brewster](#)

"If you live to be one hundred, you've got it made. Very few people die past that age." - [George Burns](#)

"It's kind of fun to do the impossible" - [Walt Disney](#)