

Mosaic to Change Portfolio Mix

Two of the key questions our Mosaic investment committee regularly considers include: “In which markets should we invest?” and “What investment classes should we use?” Here are our current thoughts:

Where should we invest?

It was not long ago the U.S. made up two thirds of the global economy (the total market value of all publicly traded stocks worldwide). Today, the U.S. market’s share of the global economy has declined to roughly 42% of the total. Although the U.S. stock market has grown substantially over the last 25 years, the rest of the world’s markets have grown even faster. Thanks to growing economies, the opening of new stock markets, and the global increase in publicly-traded companies, the U.S. share of the global economy has declined— even as the U.S. economy has grown.

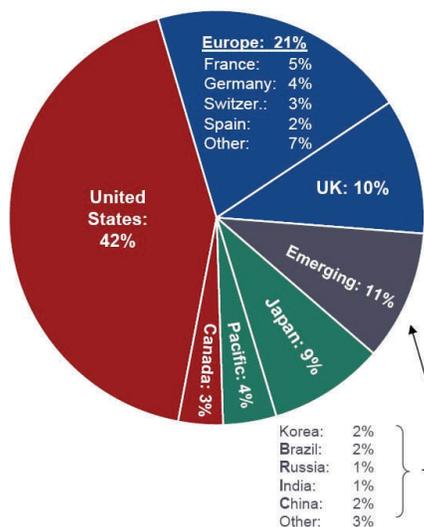
Modern Portfolio Theory, the Nobel prize winning basis of much of Mosaic’s investment approach, tells us that to achieve the risk reduction benefits of a

fully diversified portfolio, we should invest our money in the approximate weight each asset class represents within the market as a whole. In theory, it could be argued that 58% of the stocks in our portfolios should be international.

While theory is a starting point, we

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Weights in MSCI All Country World Index



A New World of Risk

We devote a great deal of time to studying new research and listening to experts. Recently, Chubb Insurance, which insures many high net worth individuals and families, visited with us and highlighted several areas of risk where they have seen increased claims. Here are some:

Identity theft and online activities: As society becomes more dependent on personal computers, mobile phones and the like, new risks have emerged. The abundance of personal data available in cyberspace invites opportunities to steal an individual’s identity for criminal purposes. Once a victim’s identity is stolen, perpetrators can ransack bank accounts, run up huge credit card bills or “borrow” large sums of money from a financial institution. The cost and time involved in rectifying this damage can be substantial. While the liability on credit card fraud is limited to \$50, there is no protection for fraud involving bank accounts, counterfeit checks and the necessary legal follow up. The Better Business Bureau reported that nearly nine million people suffered from identity theft in 2006. This cost a total of \$56.6 billion and took an average of 40 hours to resolve the problems.

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need to balance the benefits of full diversification with the reality of investor behavior. Most investors have a “home country bias.” We tend to favor investing in securities we are most familiar with— for U.S. investors these would be the securities of U.S. companies. Balancing the theoretical and behavioral, we recommend that the international portion of equity in your portfolio be increased to 50% (from about 40% currently).

What asset classes should we invest in?

To efficiently invest our clients’ assets, we diversify across a variety of asset classes. Each asset class offers the expectation of positive long-term returns while ideally moving independently of one another. If one asset class moves down, another may be moving up for different reasons.

Since stocks (both U.S. and foreign) typically represent the largest asset category in our portfolio constructions, any asset class that moves independently of stocks adds an important element of diversification to the total portfolio. Research indicates that the asset class that moves most independently of the stock market is commodities. Prices for oil, soybeans or zinc change for reasons having little or nothing to do with what is driving the stock market at large.

If a pair of assets always goes up and down in tandem, the statistical correlation is said to be 1.0. If they move in exactly opposite directions, the correlation

would be negative 1.0. Commodities have an average correlation of approximately 0.00 with stocks and most other assets. In other words, their price movements are uncorrelated with the markets — a characteristic that makes them an attractive diversifier for a portfolio.

The commodities market has a long history going back to 16th century Italy. Today, commodities are traded through the use of “futures contracts” that provide both buyers and sellers with price assurance (stability) on future commodity deliveries.

Mosaic’s exposure to the commodities markets (energy, precious metals, livestock and agricultural goods) is via the Dow Jones AIG Commodity Index. This index tracks a basket of 19 different commodities futures contracts. The price of these contracts will move up or down based on changes in prices of the underlying commodities. Within the index, no commodity category is allowed to represent more than 33% of the total index value. This approach limits the volatility of the index while producing returns consistent with the price changes in the commodities markets.

We will soon be discussing with you our recommendations for your international and alternative investment allocations. We believe increasing your international exposure and adding more commodities to your asset allocation will both help over time by reducing overall portfolio risk and hopefully, adding slightly to your long-term return.

The asset class most independent in its movements from the stock market is commodities.

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A related issue of concern is that children may unwittingly expose the family to potential risks by providing personal information over the internet (often via websites such as MySpace.com or Facebook.com).

Overseas travel for business or pleasure: World travel has increased dramatically over the past few decades — increasing the possibility of becoming injured or ill abroad. Traveling in countries with poor infrastructure and health care compounds the potential for problems and need for immediate medical attention. Unfortunately, the ability to quickly receive quality attention in such regions is limited and can be expensive. The use of an air ambulance alone can cost more than \$100,000. Other problems include the difficulty of coor-

dinating care with non-English speaking doctors.

Board Director Liability: With the growing litigiousness of American society, individuals who serve on boards of directors of public and private companies and non-profit organizations are increasingly at risk. While most companies and many organizations provide directors’ and officers’ liability coverage, the limits may not be enough to fully compensate everyone after a jury or verdict settlement. Risk exposures include but aren’t limited to: discrimination, sexual harassment, wrongful termination, and defamation of character.

If you think you might have exposure to any of these areas and want to discuss ways to mitigate the risk associated with them, please do not hesitate to contact us.

Volatile Times Cause Many to be Nervous

Since the middle of 2007, the U.S. economy and the financial markets have gone through a period of extreme volatility. The uncertainty that such ups and downs can create can be terribly upsetting for many people. What can be done to alleviate the stress?

It is said that “Change is the only constant.” Even so, it seems that recently the world around us has had more stress and change than usual.

- * The sub-prime debacle created enormous losses for banks and investors— but also the personal pain of foreclosure in many neighborhoods and uncertainty about the value of our homes.
- * War is always troubling but the Iraq and Afghanistan forays have been uniquely costly in terms of loss of life, budgetary concerns, political disagreements and loss of American reputation.
- * The long and heretofore wide-open race for the presidency is almost constantly in view these days, highlighting the uncertainty about what direction the leadership of our country will be taking.
- * The stock market has fallen more than 10% from its record high last year as the economy has slowed and news of corporate and economic problems

Knowing where you are on your financial path and what you need to do... can be extraordinarily reassuring.

have come to light.

In sum, if we listen to the news, the world can seem to be falling apart around us. For some, it may be too much. It can be natural to worry about our jobs or whether our nest eggs will be enough. Helping clients keep all these troubling issues in perspective is an important part of what we do— we help clients maintain a direction in their lives and focus on things important to them. Knowing where you are on your financial path and what you need to do to send your kids to college, buy that second home or retire with a comfortable lifestyle and maintain it over your full life time can be extraordinarily reassuring. Dealing in facts, rather than worries, is essential to one’s ability to remain calm in the storms which seem to surround us. We hope the common sense and perspective that we bring to clients’ lives help mitigate the concerns they may have.

If you know someone who is concerned about the transitions in their life (change of location, death, divorce, promotion, inheritance, sale of a business, etc.) have them call us. Mosaic is looking to add clients. If you know of someone we can help, please help put us in touch with them. We’d appreciate it and your friend will appreciate it.

Estate Planning for Your Pet

When we think of estate planning, we often think of our investments, personal property, and the care of our children. But what about Fido, or Polly? How will our pets fare after our departure or incapacity? Even if you don’t have a Macaw (that can live up to 80 years), your pet may still outlive you. Concern for this issue increases for those individuals who are advanced in age, who live alone, or who have pets with long life spans.

Think about it. Who will take care of your pet when you are gone? Perhaps you are considering your children, or your brother or sister. Although they may love your pet and be happy to care for it in your absence, they may not be prepared for the full time task of caring for your pet. After a month, they might give up and put your special friend up for adoption. You should be clear

with them about your hopes and intentions. When all is said and done, it is a good idea to put it all in writing so that there is no misunderstanding. Put your instructions with any veterinarian papers and other legal documents in a place of which your successor caretaker is aware.

To offset the cost of caring for your pet, you may also wish to provide financial resources to the person agreeing to care for it. This will make it less onerous for them to fulfill your wishes. If you are concerned that funds you provide to the caregiver will be misused, you could consider setting up a Pet Trust (which can be incorporated into your Family Trust—see your estate planning attorney for more information).

Your beloved pet deserves the same careful planning as you’d do for any of your other valuable assets.

AROUND THE OFFICE

Congratulations... In December **Kevin Gahagan** was named a “Top Advisor” by Reuters AdvicePoint. In January, he received a “Leading through Innovation” award from the Haas Executive Business Center for his contributions to UC Berkeley’s financial planning program. Finally, earlier in February, Kevin was recognized by the Consumer Research Council as one of America’s “Top Financial Planners.” **Mary Ballin** passed the Insurance Planning course in December, the 3rd of eight required courses in UC Berkeley Extension’s Personal Financial Planning program. **Benson Choy** passed both the Insurance and Income Tax courses at the American College

At the Podium... In late November, **Norm Boone** gave the keynote speech to 1,300 attendees of the Financial Planning Association of Korea annual conference about the values of a successful financial planning practitioner. **Linda Boone** spoke at one of the conference sessions on practice management issues. They were able to take advantage of the speaking opportunity with about 10 days touring Japan and Korea. Also in November, **Kevin** addressed a group of visiting Chinese bankers. He spoke on “The Evolution of the Planning Profession” as a part of a cultural exchange coordinated through Golden Gate University. In January, **Norm** and **Linda** moderated one session about technology and spoke at another about investment policy statements at the Tools for Technology Conference in Orlando. Later that month they spoke on investment policy in Las Vegas to the

AICPA annual personal finance conference and in Seattle to the annual regional conference of the Financial Planning Association.

Education A Continuing Affair... **David Lawrence** attended a seminar on IRAs and advanced planning techniques in Philadelphia last November. The two day session provided him with a full plate of information about tax codes and estate planning issues which Mosaic is incorporating into its planning process. **Norm & Linda** met with their Capstone study group in Miami in January. Topics included business plans, hiring and keeping great employees, how to create a great brand for your firm, and how to create a culture of learning within your firm. In November, **Kevin** traveled to Austin Texas to participate in a conference organized by Dimensional Fund Advisors. The conference highlights included presentations by professors Eugene Fama (University of Chicago) and Ken French (Dartmouth).

Giving Back to the Community... In December **Sabrina Lowell** conducted a pro-bono End-Of-Year Planning workshop for EARN (Earned Asset Resource Network) savers. After a very full year, on January 1st **Susan Morse** stepped down as the President of the Board of the Olympic Club, the nation’s oldest athletic club, which celebrates its 148th birthday this year.

Furthering the Profession... In November **Holly Gillian Kindel** attended the FPA’s Leadership conference in Colorado Springs.

Employee Spotlight – Andrew Boone

Andrew McKieghan Boone joined Mosaic in September as our Special Projects Coordinator, working with virtually everyone in the office on a variety of different projects. Prior to coming to Mosaic, Andrew worked with several companies in a number of different sectors. During college at USC, Andrew interned with the Los Angeles Dodger’s Community Relation’s department. Beyond enjoying almost an entire season’s worth of baseball games, he helped the Dodger’s Dream Foundation raise more than \$10 million. Andrew also spent time with Hablamos Juntos, a non-profit that specializes

in translation issues in health-care settings, facilitating communication between grantees.

Andrew earned his BA in economics from the University of Southern California and is now studying for the level one Chartered Financial Analyst exam, held in June. He is an avid USC football fan. His other interests include spelunking, kickball, and 80’s nostalgia.

As Norm’s son, he grew up around our office and many of you have met him or read about his exploits. The next time you are in the office, please stop by and say hello.

Annuity Fees and Charges

Annuities combine both insurance and investment features. These products are often pushed very hard by brokers and insurance companies. As a result, we have had a number of clients come to us with questions on annuity policies they own or which they are being encouraged to purchase.

Whether an annuity is appropriate is very much dependent upon one's individual circumstances. We are always happy to help our clients examine the issues and determine the best course of action given their goals and needs. That being said, there are some basics about fees and other expenses that are often embedded, but not made particularly clear in these contracts, that we thought might be useful to share.

If you withdraw money from an annuity contract or surrender it within a certain period of time after investing (typically three to nine years), the insurance company may assess a **surrender charge**. The surrender charge is typically a portion of the amount being withdrawn; the percentage gradually declines over the surrender charge period. For example, a typical surrender charge may start at 7% in the first year of the contract, and decline by 1% per year thereafter until it reaches zero in year 7. The surrender charge reduces the amount of the annuity investment.

Mortality and expense (M&E) charges pay for the insurance guarantee, commissions, selling and administrative expenses of the contract. Depending on the annuity, this charge is equal to a certain percentage of your contract (investment) value. The average M&E expense for variable annuities is about 1.35% per year.

The insurance company may deduct **administrative fees** to cover record keeping and other operational expenses. This may be charged as a flat account maintenance fee, typically \$25.00 per year, or as a percentage of your account value.

Variable annuities include a variety of investment options (like a mutual fund family) which each charge **management fees** to help pay for the cost of managing those funds. These management fees can be more or sometimes less than the investment manager's fees in the equivalent mutual fund.

Certain features offered by variable annuities often carry an additional fee. Examples of **charges for other features** are – a stepped-up death benefit, a guaranteed income benefit, a guaranteed withdrawal benefit, a guaranteed accumulation benefit and an earnings enhancement benefit. Oftentimes, once elected, many of these benefits cannot be removed, thus making it important to understand the benefits prior to selection.

While annuities can be useful in some circumstances, they can be confusing. Get the facts before you invest. The fees and expenses imposed by annuities can make them costly to own. This is especially true if you need cash earlier than anticipated because of the surrender fees. For similar reasons, annuities are almost always inappropriate for short-term investments.

If you have any questions or concerns about an annuity that you own please call us. We can discuss its appropriateness for you and review options to help you achieve the your goals, often at a much lower cost.

Carbon Footprint Calculator

In our constant search to share new and interesting ideas with our clients, we recently discovered www.carbonfootprint.com. It's a website that allows users to estimate their "carbon footprint," (the measure of the impact of one's activities on the environment as measured by the amount of green house gases produced, in units of carbon dioxide). It's easy to fill in the information and at the end of the process you come up with a number that allows you to compare yourself against the US averages. The website also has other informational features like offsetting the emissions of

your flights (a single round trip from San Francisco to New York produces .951 tons of carbon dioxide) and switching to green energy.

Along with informing us about the environmental impact of our lifestyle, the website also offers suggestions about a number of small things each of us can do to minimize our impact on the Earth, like choosing more efficient low energy light bulbs or appliances. It is also insightful to see how relatively minor changes in habits can have meaningful impact on the amount of greenhouse gases we produce.

Thoughts to Live By

"No one can persuade another to change. Each of us guards a gate of change that can only be opened from the inside. We cannot open the gate of another, either by argument or by emotional appeal." -- [Marilyn Ferguson](#)

"Success is living up to your potential. That's all. Wake up with a smile and go after life. Live it, enjoy it, taste it, smell it, feel it." - [Joe Kapp](#)

"People become really quite remarkable when they start thinking that they can do things. When they believe in themselves they have the first secret of success." - [Norman Vincent Peale](#)

"If you want to know what your true beliefs are, take a look at your actions." - [Unknown](#)

"Leadership is not domination, but the art of persuading people to work toward a common goal." - [Daniel Goleman](#)

"A citizen can hardly distinguish between a tax and a fine, except that the fine is generally much lighter." - [G.K. Chesterton](#)