

## Property Tax Generational Transfers

Owners of residential real estate in California benefit from “Proposition 13,” the 1975 law which establishes the base property valuation for each home — usually based on the home’s purchase price. This has allowed homeowners to avoid large, unpredictable increases in their property taxes.

Under “Prop 13,” upon your death, if your real estate is inherited by your children, they can generally inherit your current property tax valuation as well. Where parents are deceased, grandchildren can directly inherit a family residence from their grandparents and enjoy the same property tax treatment.

In California parents are able to use the “Parent-Child Exclusion” for real estate transfers. When a primary residence is transferred to a child, either by sale, gift or inheritance, the parents’ current tax valuation is retained. For properties other than the primary residence, there is a \$1 million limit (per spouse) of maintaining the Prop 13 value that can be excluded from reassessment. If an individual has multiple properties, those properties can be passed to multiple children. The only common exclusion is if a child has already been transferred a primary place of residence, that child would not be able to take advantage of the Prop 13 value if another primary residence were transferred to that child.

To take advantage of the Prop 13 value transfer, a claim must be filed with the county within three years of the transfer or prior to transferring the property to a third party — which ever is earlier. This form and more information can be found at the following website:

<http://www.boe.ca.gov/proptaxes/faqs/propositions58.htm#1>

## The Neighbor’s Tree

Who is responsible when your neighbor’s tree falls and damages your garage? Will insurance pay for the damage? Whose insurance company will be accountable— yours or your neighbor’s? What will your insurance cover?

If the tree falls in your yard but doesn’t hit your house, will your insurance policy pay for the fallen tree to be removed? To buy a replacement tree?

If a limb from the tree breaks during a wind storm and is dangling over your house will your insurance policy pay to have it removed? What if it's endangering your house?

If the tree instead falls on your car, which policy will cover the damage to the car? Is there coverage for tree removal?

It does not matter who owns the tree— where there is damage to your property (from any cause) your insurance policy will be the one to provide coverage. If there is damage from your tree to a neighbor's property, the neighbor’s policy will provide coverage. If both properties are damaged each homeowner’s policy will pay claims related to the

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## The Web's Lost and Found

Ever lose a valued item and wished you had some way to get it back? Try [StuffBak.com](http://StuffBak.com), a web-based service that offers consumers and businesses a way to confidentially link important mobile assets to an international 24/7/365 recovery network. Users attach ID labels or tags to products that can be easily lost – cell phones, cameras, lap tops, iPods, etc. You then activate your ID number tags on-line.

Stuffbak boasts a return rate of 75%. They claim that finders are motivated to return lost property because StuffBak's system is simple, convenient, confidential, cost-free, and rewarding. Finders call a toll-free number or go online to report the item's ID number. StuffBak then arranges for a courier pickup

or directs them to a nearby drop-off center. These good Samaritans don't have to pack a box or pay for shipping. Once the property is returned to the owner, finders receive a \$20-value product reward, plus any cash reward offered by the owner. To enroll in this service, you simply order the company's ID labels (typical cost is \$4.95 each but quantity discounts are available). You can also buy service plans that offer a broader level of coverage depending on your needs (including an "Enterprise" plan for your company).

Personal and business information is kept safe and private. Anonymity can be maintained throughout the return process and owners don't need to meet with strangers or reveal contact information.

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property that each company insures.

A homeowner's insurance policy will only cover damage claims to someone else's property if liability is involved. For example, if the tree was rotten or leaning and should have been removed or trimmed prior to the damage occurring, then your insurance might pay for damage to your neighbor's property.

The key question is: what actual damage has occurred? If a tree, or limb, falls and does no damage to real property (building, structure or contents), insurance will not pay to remove the tree. If damage does occur, insurance will normally cover repairs or replacement of the damaged property along with limited coverage for tree removal and clean up.

The tree itself may be covered in certain circumstances but only for a limited amount. Trees are generally not covered for wind or hail damage. They are covered for damage from fire, lightning, vandalism and vehicle damage (as long as it was not a vehicle driven by a member of your family). The limit is typically \$500 per tree but can be more on some policies.

Interestingly, if a damaged tree is leaning toward your home or endangering it — but it has not yet caused damage to your home, then there is NO coverage. This is true even if another tree or portion of

the same tree has caused prior damage.

Insurance policies only cover actual damage, not potential damage. It is your responsibility to protect your property. The same is true if one of your trees is endangering a neighbor's property — there is no coverage for potential damage.

If you ignore the situation and the tree later falls and causes damage to your neighbor's home, the neighbor's insurance will provide coverage. However, the insurance company will generally seek to recover their payment from your insurance company or you. If *your* home is damaged, your insurance company could seek to deny coverage because you did not protect the property. Homeowners insurance protects against sudden and accidental damage — not deferred maintenance.

Finally, damage to any automobile will only be covered by the auto policy (and then, only if you have comprehensive coverage). Tree removal will not be covered by your homeowner's policy unless real property was damaged in addition to your car.

We will be happy to review your property and casualty policies (there may be an additional cost). Specific questions about your policy should be directed to your insurance agent. If you are not getting helpful answers, we can direct you to a qualified agent.

**It does not matter who owns the tree. If there is damage to your property (from any cause) your insurance policy will be the one to provide coverage.**

## SIPC Insurance: Protecting Your Assets

During the big market declines over the last few months and with the well publicized problems of Bear Stearns, a few clients called us wondering to what degree their assets were protected from loss.

Each of the custodians we use (Schwab, Fidelity, TD Ameritrade) is a member of the Securities Investor Protection Corporation (SIPC). The assets placed with any of these entities are insured against failure of the respective companies by the SIPC—to \$500,000 of protection for each separately titled account (i.e., IRA, Joint Tenant, Community Property, etc.). This includes up to \$100,000 for claims of cash balances.

In a liquidation proceeding under the Securities Investor Protection Act, physical stock certificates registered in a customer's name and on the stock certificate would be returned to the customer. However, most securities held by custodians are held in "street name." Securities held in street name (also referred to as "book entry") are held in a fund account and the account holders are entitled to a pro rata distri-

bution from the fund of customer property. All cash on deposit with the broker and all securities held in "street name" for the benefit of all customers would be pooled to form the fund of customer property.

If the refunded amounts are still short after the pro rata distribution, the customer would then be entitled to the coverage provided by SIPC. The Series 100 Rules provide additional information on separate accounts and are available on the SIPC's website: [www.sipc.org](http://www.sipc.org)

Each custodian has its own additional arrangements to protect its customers. For example, Charles Schwab & Co., Inc. has arranged for additional insurance for its customer accounts through underwriters at Lloyd's of London. Schwab's coverage with Lloyd's provides protection of securities and cash up to an aggregate of \$600 million, in excess of the refunded amounts and the SIPC coverage. Fidelity and TD Ameritrade also have additional coverage intended to cover all account balances in the event the SIPC insurance is exhausted.

## Target Date Funds—Are They Worth the Hype?

Target date funds are often an appropriate choice for investors because they allow for a single decision up front, and automatically change the allocation of the fund over time to reflect a presumed change in the investor's risk tolerance. They are simple to use, meet

a number of needs and have therefore grown from \$12.3 billion in 2001 to about \$160 billion today.

For smaller investors and for those who have no tax concerns or unique portfolio requirements, target date funds can be attractive. For larger investors who require flexibility in their approach and whose needs may change over time, this single solution may not be an effective one. A target date fund might be good for a single IRA where taxes aren't a concern. However for taxable investors, being in a fund that will change its holdings over time and do so without consideration of the individual's needs, may not be an effective solution. For investors with specific holdings that can't be sold or for those who need a more customized solution, a single fund designed for mass appeal is unlikely to be the best answer.

Call us if you'd like more information about when target date funds might serve you well.



## AROUND THE OFFICE

**Congratulations...** to **Holly Gillian Kindel** for passing her oral coaching exam in February. This was the last step in a rigorous year long journey culminating in her becoming a certified professional co-active coach through The Coaches Training Institute. In doing so, **Holly** racked up over 200 hours of coaching training and 100 client hours. If there is a life problem you are facing for which you'd like some help, call Holly.

**At the Podium...** In March, **Kevin Gahagan** gave a presentation to the North Bay Investors' Forum entitled "Adding Commodities to Your Asset Allocation." In February, **Norm Boone** spoke to the Puget Sound chapter of the Financial Planning Association about Investment Policy Statements. **Linda Boone** spoke to the FPA's South Florida symposium in April and together **Norm & Linda** spoke on IPSs at Santa Fe Trust's Trust School and at the national conference for the National Association of Personal Financial Advisors.

**Education A Continuing Affair...** **Benson Choy** passed the Estate Planning CFP course requirement, the last of the six required courses to allow him to sit for the CFP exam, which he will do in June. **Mary Ballin** is continuing her progress toward earning her own CFP designation. She and Benson both have earned an unbroken string of "A's." To stay abreast of compliance issues, **Susan Morse** recently attended the annual SEC Outreach Conference in San Francisco. In late April, **Kevin** attended a three-day PIMCO principals-only conference on current trends and forecasts in the fixed income markets, world commodity markets and the U.S. real estate market. **Andrew Boone** has already put in about 300 hours of classroom and self-study towards the Chartered Financial Analyst I (of three) exam to be taken in June.

**Giving Back to the Community...** On June 11<sup>th</sup>, **Mosaic** will close both of our offices so that our team can devote a full day to helping Habitat for Humanity, San Francisco with the construction of their new home project in the City. We are very excited about joining together to help this worthy cause and will provide a full report in our next newsletter. **Geoff Zimmerman** and **Mary** of our East Bay office recently provided coaching and mentoring expertise to clients of the Women's Initiative for Self Employment at a recent "Financial Freedom Connect Event" in Oakland. **Geoff** has also taken on the role of an Adoption Counselor with German Shepherd Rescue of Northern California and sits on the fund raising committee. In addition to helping some great dogs find good homes, he can be found every third Saturday of the month at GSRNC's Adoption Day in Pleasant Hill. **Holly** continues to serve as a mentor in the FPA's Coach Match Program which uses peer mentors to help financial planners in all career stages enhance their practice or careers. **Norm** continues as a trustee for San Francisco's Saybrook Graduate School and Research Center, which is known for its humanistic psychology offerings and is about to embark on a significant expansion program. He also continues as the treasurer of the Harvard Business School Alumni Association of Northern California and just finished up as chairman of the East Bay Parks Foundation Planned Giving Professional Advisory Council.

**Furthering the Profession...** June will see the conclusion of **Kevin's** term as president of the Estate Planning Council of Diablo Valley. While serving has been rewarding, he will be happy to pass the gavel on to the new president. **Norm** is finishing up two years as the treasurer of the San Francisco Estate Planning Council, on the ladder toward the presidency.

### Employee Spotlight – Ari Wirshup

Ari Wirshup is an intern working at Mosaic this summer on a number of internal and client-related projects. He recently finished his freshman year at Washington University in St. Louis. He is pursuing a bachelor's degree in Business Administration with a

double major in Finance and Economics. Prior to attending college, Ari grew up and attended high school in Oakland. In his free time, Ari enjoys cycling. If you see him around the office, please say hello.

## Socially Responsible Investing

“Green” is an increasingly popularized concept that encourages conservation and wiser use of our resources — use of wind and solar power in place of petroleum-based products and a more creative and sensitive interaction with our environment.

Socially Responsible Investing (SRI) seeks to promote positive change by investing in companies that demonstrate a socially conscious approach to business (such as adhering to “green” practices). SRI also pursues other social agendas by avoiding investment in companies involved in weapons production, gambling, alcohol or tobacco. Some have used faith-based screening as well.

Due to their practice of limiting their investments to companies and industries which satisfy the chosen screening criteria, SRI managers and funds have historically performed below market indexes. SRI advocates argue that companies that do good can be expected over time to outperform other companies with less positive ethics. The jury is still out about the validity of this argument, although re-

**If you have an interest in general, or more specifically, if you would like us to consider utilizing SRI as part of your portfolio, we'd like to hear from you.**

cently SRI funds have performed relatively well.

One newer approach to SRI, called “Advocacy Investing™,” provides the investor a highly personalized approach to investing that directly reflects the investor’s core beliefs, values or mission. There can be screens for positive company behaviors in the area of social justice (which includes human rights, employment practices, diversity and respect for the environment). Industry exclusion can also be accommodated where an investor’s philosophical or religious beliefs require it, but with appropriate portfolio adjustments to mitigate risk.

We at Mosaic have not systematically employed SRI approaches in our investment process in the past. As the recognition of SRI has grown, we’re interested in understanding whether some demand for SRI exists among our clients. If you have a general interest, or more specifically, if you would like us to consider employing SRI as part of your portfolio, we’d like to hear from you. Please speak with your advisor or send us an e-mail at [info@MosaicFP.com](mailto:info@MosaicFP.com) and let us know.

## Understanding the Mosaic Investment Process

How we invest our clients’ money is derived from two key elements: 1) Fundamental investment philosophies; and 2) Mosaic Investment Committee decisions about strategies and products.

Most of the time, we tell you about the affirmative decisions we have made—the allocation or specific investment changes we are recommending for your portfolio. We thought telling you about a recent negative decision would better inform you about the thinking that goes into the management of your money.

“Structured Notes” are a new kind of investment vehicle in this country, although they are widely used in Europe. Fundamentally, a Structured Note involves the lending of money to a large investment bank (e.g. JP Morgan, Deutsche Bank, Goldman Sachs, and others), which in turn invests in derivative products that can enhance rising returns, protect against falling returns, or some combination.

A typical example might be a two-year note that gives an investor 150% of any rise in a selected index, capped by an aggregate 50% return or alternatively, if the index dropped by 15%, the note could be structured so the investor would lose only 5% of her initial investment [100%-(15% loss, less 10% protection)].

While this mix of upside help or downside protection can be quite attractive, risks arise in the liquidity of the individual note and credit concerns for the provider of the note, especially in the current market situation. To minimize these risks, we choose securities that have a diversified futures contracts portfolio and trade in regulated marketplaces. During this difficult time in the financial markets, we realize the challenge in regularly and accurately assessing the creditworthiness of the various investment banks. After much deliberation, our Investment Committee chose to not recommend individual Structured Notes to our clients at this time.

## Thoughts to Live By

"Whether you believe you can do a thing or not, you are right." -- **Henry Ford**

"Take pride in what you do. The kind of pride I'm talking about is not the arrogant puffed-up kind; it's just the whole idea of caring - fiercely caring." -- **Red Aurbach**

"If we had no winter, the spring would not be so pleasant: if we did not sometimes taste of adversity, prosperity would not be so welcome." -- **Anne Bradstreet**

"One important source of unhappiness is the habit of putting off living to some fictional future date. Men and women are constantly making themselves unhappy because in deferring their lives to the future they lose sight of the present and its golden opportunities for rich living." -- **W. Beran Wolfe**

"A positive attitude is perhaps more important at home than anywhere else. As spouses and parents, one of our most vital roles is to help those we love feel good about themselves." -- **Keith Harrell**