MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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It's Critical That You Update Your Beneficiary Designations!

Your retirement and life insurance assets require that you designate one or more beneficiaries—the people who you want to receive the funds at your death. Because beneficiary designations override any guidance in your will or trust, it is imperative that you periodically review your beneficiary designations to ensure that they are current.

Annuities and *Pay on Death* or *Transfer on Death* accounts also pass "by contract" to your beneficiaries.

When you fill out beneficiary forms, you need to identify your Primary and Contingent Beneficiary(ies). You'll also generally need to choose between "Per Capita" and "Per Stirpes."

Assume Bob names his two children, Julie and Alan, as equal primary beneficiaries:

* With "Per Stirpes," if Julie dies before Bob, son Alan would receive his 50% share and Julie's 50% share would pass to Julie's children in equal shares.
* With "Per Capita," if Julie predeceases Bob, Julie's 50% would be allocated to the remaining living beneficiaries designated. In our example, Alan would receive 100% of the account at Bob's death and Julie's heirs would get no benefits.
* A third less commonly used option is "Per-Capita by Representation." If Julie predeceases Bob and she has two children, Julie's children would "step into Julie's slot" and each of the three (son Alan and the two grandchildren) would each receive one-third of the account value.

Note that all the above also applies to contingent beneficiaries in the event the primary beneficiary is deceased or disclaims the assets.

Decisions concerning who you name as beneficiaries and how you classify them have both estate planning and income tax ramifications. Especially when there is a change in your family circumstances (e.g., divorce, a birth or death) it is important that your beneficiary designations reflect those changes.

The Ever-Changing Estate Tax Landscape

Despite all the uncertainties of this election year, the future of the estate tax seems clearer today than it has in several years.

You'll remember that in 2001 Congress passed a new estate tax law. That year Americans could pass to their heirs tax-free only $675,000. Every year or two that amount was increased. It's $2 million this year and will be $3.5 million in 2009. Then, in 2010, the estate tax is to be repealed, but only for one year. The current law then returns the tax-free exemption amount to $1 million in 2011. The continuous change and future uncertainty has made planning nearly impossible.

Today, most observers are convinced that changes will occur next year, regardless of who is elected, and that we'll never see the scheduled repeal of estate taxes; both McCain and Obama are against it. Obama favors a $3.5 million exemption while McCain prefers $5 million. Since the law allows married couples to double the tax-free

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What's Inside

Should You Consider ID Theft Insurance?

Identify theft is a news item almost every day. As a result, ID theft insurance is aggressively being promoted as a way to minimize the potential problem. While you need to protect yourself from someone inappropriately using your credit cards or other stolen information, there are several things you can do.

Identity theft insurance usually costs about $25 to $50 per year and has maximum benefits of $15,000 to $25,000 and deductibles of $100 to $250. The policies generally only cover the expenses of cleaning up the crime, including attorney's fees, costs of mailing correspondence and lost wages. They generally do not cover the out of pocket loss to the victim (the typical loss for ID theft victims is about $800). According to the Federal Trade Commission, the average victim spends less than $1,500 to recover from ID Theft.

Instead of, or in addition to identity theft insurance, credit report monitoring services are sold by the big credit bureaus - Equifax, TransUnion and Experian - and by large credit card issuers like Trilegiant. For $30 to $150 per year, these companies monitor your credit report and alert you when they receive credit applications or inquiries, giving you the chance to quickly stop any inappropriate use.

Consumer Reports (www.consumerreports.org) believes that identity theft insurance is generally not worth paying for since it can be done quite effectively using free services. At Mosaic, we recommend that you check your credit history at least annually by using the online service at www.AnnualCreditReport.com. Even better, each of the three participating big credit bureaus allow you a free annual review, so you could check with one every four months.

Credit card companies also provide a good deal of assistance when things go wrong. For example, American Express makes its identity theft assistance available to all cardholders for free. It gives you round-the-clock telephone access to company representatives who will "help you determine if your identity has been stolen, navigate the recovery process, and protect yourself in the future."

Whether or not you purchase ID theft insurance, here are few simple things we recommend you do:

* Guard your personal information — Social Security number, account numbers and PIN codes.
* Shred all documents containing account numbers or other personal information.
* Check your bank and credit card statements each month — look for charges you didn't make.

To find out more about identity theft, visit the Federal Trade Commission Identity Theft Center at: http://www.ftc.gov/bcp/edu/microsites/idtheft.

(Estate Tax—continued from page 1)

amounts, it's likely that, in the future, couples could leave their heirs a minimum of $7 million -- and maybe up to $10 million -- before estate taxes would begin to apply.

The higher amounts suggest few Americans will need to worry about the estate tax. In 2006, when the exemption amount was the same $2 million per person as it is today, fewer than 3,000 estates actually owed any tax.

For those still facing estate taxes even with the higher exemption amounts, planning can help reduce the amount of taxes your estate will pay. You and your spouse can each give any number of people up to $12,000 a year without paying gift taxes. In addition, you can each give away up to $1 million gift-tax-free during your lifetime. Charitable gifts, during lifetime or at death, will also reduce your income or estate tax bill and can represent an important way for you to help your community and the causes important to you. Other techniques are also available.

Even if your combined net worth is well below $7 million, it will still be important to establish an estate plan. You need to have a plan to pass on whatever wealth you do have. There are other contingencies that also need to be addressed. Everyone should, at minimum, have a will, a power of attorney and a medical directive. In most cases, a trust will also be important.

A good estate plan can be very creative, helping to reduce the government's take and, most importantly, to ensure that your wishes are met.

Will Your Tax Return be Audited?

Each March, the IRS issues its annual data book. The book provides statistical data on the IRS's activities for the prior fiscal year. Included in the information were the following facts:

- Roughly 1% of all individual income tax returns were audited (1,384,563 out of a total of 134.5 million returns that were filed). More than 1/3 arose due to mistakes on the earned income credit. Over 3/4 of all audits were handled totally by correspondence. Agents conducted audits on only 0.225% of all filed returns. Of those agent-conducted audits, only 12% resulted in no changes.
- For individual returns with income from $200,000 to $1 million, the audit rate was 2% for returns without business related items and 2.9% for returns with business related items. For returns with income of $1 million or more, 9.3% were audited.
- C Corporations with less than $10 million of assets had an audit rate of 0.9%., while fully 1/6 of larger corporations with assets above $10 million were audited. The audit rate for S corporations was only 0.5% rate, while it was 0.4% for partnerships.
- Fiduciary income tax returns had an audit rate of 0.1%.
- Estate tax returns were audited 7.7% of the time, while gift tax returns were audited 0.6% of the time.
- The IRS received roughly 46,000 offers in compromise and accepted roughly 12,000 (26%).
- The IRS initiated 4,211 criminal investigations, with 2,837 referrals for prosecution and 2,155 convictions.

Ideas You Might Find Interesting...

Teaching Kids about Philanthropy: If you are looking for an entertaining and educational gift for a child or a grandchild, take a look at www.markmakers.org. The goal of the site is to allow children (or adults) a hands-on opportunity to make "grants" as small as $10 to a large number of non-profit organizations grouped into six broad categories: environment, peace and justice, kids in need, healthcare, hunger and animals. It is fun, interactive and empowering for children.

Good Reads: The Middle-Class Millionaire by Russ Alan Prince and Lewis Schiff looks at the 8.4 million Americans who are neither "rich" nor "middle class," whose net worth is between $1 million and $10 million in assets and how they are changing America. The book offers about a dozen easy to recognize traits and attitudes of this group including everything from career to family, to life philosophy. A New Earth: Awakening to Your Life's Purpose by Eckhart Tolle, who believes humans are on the verge of creating a new world by a personal transformation that shifts our attention away from our ever-expanding egos.

iPod downloads: Oprah's weekly Spirit conversations with some of the world's leading thinkers about spiritual and emotional health, including Eckhart Tolle, Kathy Freston, Rodger Kamenetz, Marianne Williamson, Michael Losier and others. Download it to your computer or iPod from iTunes or at www.oprah.com/topics/spirit.

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AROUND THE OFFICE

Congratulations… In June, **Kevin Gahagan** was recognized by the Consumer Research Council as one of "America's Top Financial Planners." In July, **Andrew Boone** learned he had passed level one (of three) of the CFA program.

At the Podium… In June, **Norm Boone** spoke at UCSF about Personal Finance Issues for Young Doctors. In July, Norm and Linda received excellent ratings for their Schwab webcast given to about 200 attendees on How to Prepare an Investment Policy Statement. In May **Holly Gillian Kindel** talked about how to review Property Casualty Insurance at the FPA Northern California Regional Conference. In July **Sabrina Lowell** Chaired the annual FPA NexGen Conference for young financial planners. The conference included a number of nationally recognized speakers; the content focused on issues such as career paths, technical knowledge, and where the industry is going as a whole.

Education A Continuing Affair… In June, **Dave Cowles** attended a user conference in Chicago on our portfolio rebalancing and trading software iRebal, which improves our ability to monitor client portfolios against their target allocations, identifies tax loss harvesting opportunities and automates the preparation of trade tickets reducing order entry errors. **Kevin** and **Susan Morse** attended JP Morgan's Annual Alternatives Investment Conference in San Francisco in July. In May **Susan** attended the CFA Institute's 61st Annual Conference in Vancouver. In early August, **Kevin** attended a conference on leadership and management sponsored by the National Association of Personal Financial Advisors (NAPFA). Held at the University of Chicago's Gleacher Center, this inaugural conference brought together fifty of the country's largest independent advisory firms.

Giving Back to the Community… In June, Mosaic closed our offices and devoted the day to working on two homes being built by Habitat for Humanity. Dividing our efforts between framing, drywall and deck construction, our "crew" was able to see real progress on all fronts by the end of the day. **Geoff Zimmerman** joined the Lafayette Rotary club and is co-chairing his local Rotary group's participation in the Lafayette Art & Wine Festival taking place on September 20th – 21st in downtown Lafayette. **Geoff** is also helping on the German Shepherd Rescue of Northern California fund-raising committee.

Furthering the Profession… At the end of June **Kevin** completed his term as President of the Estate Planning Council of Diablo Valley. He will continue on as Chairman in his final year on the board.

Exotic Travels… **Susan** and her husband Frank were in Japan in late May to visit their son, who has been teaching English in a remote fishing village in Mie Prefecture for one year. **Norm** and **Linda Boone** spent three weeks in China, starting in Shanghai and moving on to the Northwest corner near Mongolia, to view the August 1 total solar eclipse and to visit many historical cultural and sites. In June, **Sabrina** spent three weeks traveling to Dubai, Oman, Hong Kong, and Macau

Employee Spotlight – Holly Gillian Kindel

Holly Gillian Kindel joined Mosaic Financial Partners in 2000. Since then Holly has earned two new designations: Chartered Life Underwriter (CLU) and Certified Professional Co-Active Coach (CPCC) through the Coaches Training Institute. Her coaching designation involved more than 300 hours of training and enables her to help clients clarify and attain personal and career goals. Holly also has been teaching since 2006. She was named the "Outstanding Adjunct Financial Planning Faculty Member of the Finance Economics Department at Golden Gate University" in 2007. She has also consistently given back to the Financial Planning and surrounding community. In 2005, Holly was named EARN's (a local non-profit) "Volunteer of the Year," as she set up a project that matched new financial planners with low-income EARN enrollees to provide them with comprehensive financial planning.

In her free time she enjoys mid 20th century art and furniture and spending time her zany pug.

Staying Fully Invested

You've heard us advocate staying invested in the markets, even through these tough times. Here's why:

Markets are bets on what will happen in the future, so they tend to anticipate the economy by about six months. To win big, investors need to be the first to spot future trends. What is happening now, or economic reports that reflect the past, are less important than future expectations. Markets trade prospectively.

As the economy moves out of periods of difficulty, markets often rebound strongly. When the perception begins to turn positive, stocks appear "cheap" and investors quickly drive markets higher. These pushes can involve huge rallies.

Down years happen. In fact from 1926 through 2007 the S&P 500 experienced 23 down years; that's more than one out of every four years. However, every historic study has shown that markets tend over the longer run to go up. Even after this current drop the S&P 500 has returned a compounding average return of 10.13% since 1926. As the chart below shows, on average, the first positive year after a down year has gained 27%. When returns were negative for more than one year, the normal turnaround year averaged more than 34%. Steadfast investors have historically been well rewarded.

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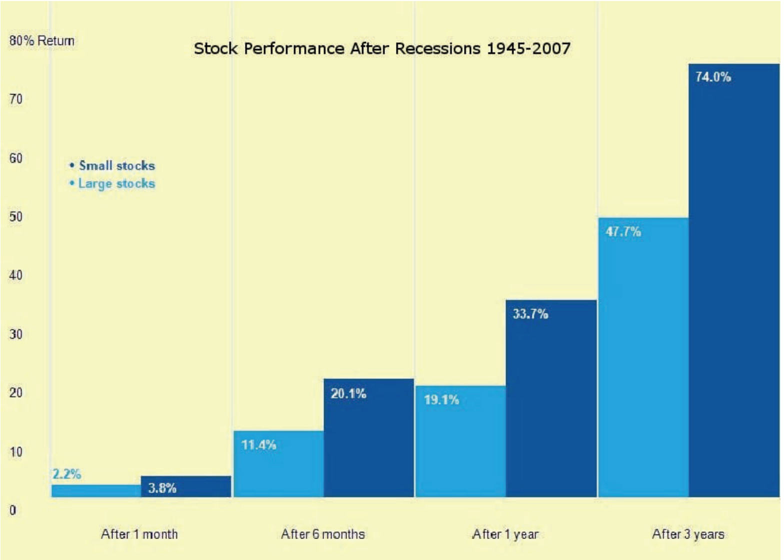
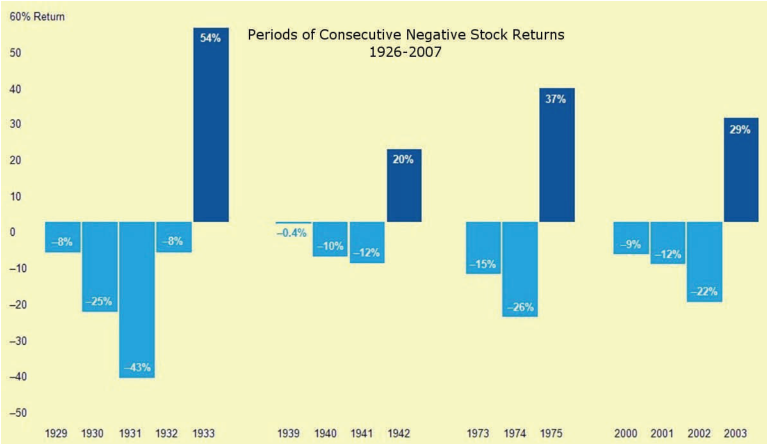


Some investors feel they can circumvent this problem by going to cash when they feel the market is high and reinvest when they "know" the market is low. The problem with this is that an investor needs to be correct twice to beat the market. Said another way, you need to have greater insight than the rest of the investing world to the future, both when to sell and when to buy back in. How do you know when a peak has been reached and it is time to sell? If you time that correctly, how do you know when has the trough been reached and it's time to buy? These simple timing issues do not even take into account the transaction costs and the realized gains that the investor incurs making these trades. If you miss the trough, you will miss when the market turns positive or if you bet wrong on the peak you can miss out as the market continues to gain as while you are still in cash. It's simply too difficult to successfully outguess the market consistently.



One bit of lemonade coming out of recent market difficulties: our investment department has aggressively been looking for tax loss harvesting opportunities in client portfolios. If we sell a fund that has a loss and buy a similar fund, we can "bank" the loss and use it to offset future gains.

In conclusion, we do not believe anyone can consistently, successfully "time the market" so it's best to keep yourself fully invested and allow the market to recover so you can capture those gains as well. If you have extra money that is not invested, now may be the time to buy when things are "on sale," taking full advantage when the market does recover.

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Thoughts to Live By

"The only tyrant I accept in this world is the 'still small voice' within me ." -- **Mohandas K. Gandhi**

"Feeling grateful or appreciative of someone or something in your life actually attracts more of the things that you appreciate and value into your life." -- **Christiane Northrup**

"The big secret in life is that there is no big secret. What ever your goal, you can get there if you're willing to work." **-- Oprah Winfrey**

"The average person puts only 25% of his energy and ability into his work. The world takes off its hat to those who put in more than 50% of their capacity, and stands on its head for those few and far between souls who devote 100%. ." -- **Andrew Carnegie**

"To affect the quality of the day, that is the highest of arts ." -- **Henry David Thoreau**