MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Other Alternatives Available

We get a lot of people offering their products to us as a place for you to invest your money. Most are not suitable, but we consider as many of these proposals as we can to see if they would be beneficial to you. Few pass our standards. Still, some are intriguing and we'd appreciate hearing from you if you'd like us to discuss one or more of them with you, especially in light of the challenging markets we've all been through. Where there are difficulties, there are usually also opportunities.

Virtually all of these are long-term, illiquid investments that can be hard to escape from if you need the money or the investment turns bad. The expected holding period is rarely less than four years and usually it is 6-10. While you may like the concept, you rarely get to see exactly what is being purchased before you make the investment. Appropriate due diligence (research into whether it is a good investment) is somewhere between very difficult and virtually impossible. They are expensive, with high fees making good returns harder to achieve . Generally, these offerings are only available in amounts of $25,000 to $250,000 or more, sometimes paid in over time.

Distressed mortgages – Banks and other lenders are under great pressure these days. The $700 billion TARP rescue plan was originally premised on the government buying packages of the lenders' loan portfolios, while the plan has changed, the need for banks and others to sell those mortgages continues unabated. Private investors are beginning to step in, buying at what they presume to be the low point in the market and expecting to sell them in 2-4 years with substantial gains.

Managed Futures – Managed futures invest in commodity futures contracts, betting either that they will go up or go down. These are generally very short-term bets, with money sitting on the sidelines earning

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What if My Insurance Company Fails?

During the past few weeks, we have been asked by several clients "what happens if my insurance company fails?" The answer is that it depends on the type of insurance you have and where you are located: For example, in California, the state's Department of Insurance guarantees up to $500,000 on property/casualty insurance, $250,000 in life insurance death benefits, $100,000 in life insurance cash surrender value, and $200,000 for health policies. Claims that exceed the state's limits may eventually be satisfied if there are adequate proceeds after the company's liquidation. If you have a property/casualty policy or a term life policy and do not have any outstanding claims at the time your insurance company closes, you may be instructed to buy a new insurance policy with another company.

Whole or universal life policies and annuities may be transferred to another insurance company through a sale of the portfolio. Companies taking over the policies cannot change the terms of the policy, but they can raise premiums or fees. If you don't like the changes, you can either exchange or,

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What's Inside

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interest except when the bets are made. While each firm has its specialty, a mix of approaches means that you can be winning or losing across several fronts. In our portfolios today, we have "Long" commodity investments, which means we do well on the way up but poorly when commodity prices are sinking. A managed futures investment can win or lose in either direction. Traditionally, a mixed approach has offered a fairly stable ride that is non-correlated with stocks and bonds and acts differently than our current long commodities holdings.

These funds' modeling techniques create a market neutral security (meaning the market's movement does not determine the profitability of the security, it is determined by the effectiveness of the manager's discipline, or investment model). Independent market movements can be great in environments like our contemporary one, but picking a successful manager is difficult. Regardless of their past performance, managers must be judged on their models and their ability to produce future results.

When investors find a good private equity firm, it handily outperforms the general equity market

Private Equity – Traditionally there are two types of private equity: venture capital, providing capital to start ups, and buy outs, buying companies (domestic or global) that can be separated into smaller more valuable companies or restructured to be more profitable.

One of the seeming keys to success in any of these deals, but perhaps especially so in Private Equity, is that there seems to be a proven and consistent difference in performance between the best and the other managers. While overall private equity returns have been similar to market equity returns there is often a huge variation between the best funds and the worst funds. The best ones (such as Carlyle, Blackstone, Goldman Sachs, Lighthouse Partners) much more often get early access to the best opportunities; the others get the cast-offs.

Fund of Funds — This approach relies on the belief that you can't ever know which strategy is going to work best or worst, so it makes sense to have a little of each kind of strategy. Similar to the way larger endowments are managed, the fund manager hires other managers with different specialties (e.g., Opportunistic Equity, Enhanced Fixed Income, Absolute Return, Real Estate, Private Equity and Energy & Natural Resources) or geographic focus (e.g., Asia) to each manage a small portion of the larger fund. While it adds another layer of expenses, it can be an easy way to access a number of strategies and good managers.

Hedge Funds — As a group, hedge funds have had some difficulty lately, but over time, specialized management has offered the potential for higher returns. These can include real estate opportunity funds, special situations strategies, or almost anything else. As in private equity, the best managers have generally shown consistently better returns.

Many of today's biggest investors have a significant portion of their portfolio in these kinds of investment approaches, largely because of the return opportunities, but occasionally because of the dampening effect on volatility. We do not purport ourselves to be experts in this field but we do want you to know that we can access these kinds of opportunities. If you are interested, please contact us.

(Insurance—Continued from page 1)

in the extreme, cancel your policy and look for a new insurer. The problem here is that you may no longer be insurable so this comes with a degree of risk. Also, if you buy a new policy, you may have to pay surrender charges, sales commissions, or higher premiums.

For our clients, an area of possible exposure is to AIG . While we have no specific inside knowledge of how the company is doing, companies we work with in the private client market remain confident in the ability of AIG to meet its claims. AIG continues to be well capitalized in the form of shareholders' surplus of $32 billion and invested assets of $98 billion as of October. These funds are protected by law, can only be used to pay claims and refund policyholder cancellations; they should provide the capital to run its day to day business and meet future obligations, should even a sizeable natural catastrophe occur (www.ncigf.org/public.asp or www.caiga.org). AIG still retains a top tier insurance company rating (AM Best rating of "A", which is down from its prior rating of "A+"). At this point we are not recommending that our clients switch from AIG.

Tax Planning: Are You Ready?

As the end of the tax year approaches, your tax professional can provide an estimate of how much you'll owe in taxes for 2008 and, if reasonable assumptions can be made, an estimate for your 2009 tax liability. To lower your tax bite, it is wise to take certain steps at year-end.

Deadlines to Set-up a 2008 Retirement Account:

- December 31, 2008
  - Profit Sharing Plans
  - Solo or Individual 401(k)s
  - Company 401(k)s
- April 15, 2009
  - IRAs
  - Roth IRAs
- Tax-filing deadline (including extension)
  - SEP-IRAs

2008 Retirement Plan Contribution Limits:

- 401(k) = $15,500 + $5,000*
- Solo or Individual 401(k) = $46,000 + $5,000*
- PSP and SEP IRA = lesser of ~25% of compensation or $46,000
- IRA or Roth IRA = $5,000 + $1,000*
  - *catch-up allowance for ages 50 or older*

Tax Planning Opportunities:

♦ **Custodial Accounts and Gifting –** The annual gift exclusion for 2008 is $12,000 ($13,000 next year). 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 $65,000 in 2009. UTMA and 529 college savings plan accounts may be set-up at anytime.

♦ **Required IRA Distributions** – Those who are 70½ and older are required to take minimum distributions from their IRA accounts. *If you have not already satisfied your 2008 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 2008, 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 70½ 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 push income into 2009 if it can be delayed. Some other ways of minimizing taxes:

∗ Depending on changes between your 2008 and 2009 tax situation consider deferring bonuses or additional income until after December 31 .

∗ Group your deductible expenses (professional fees, medical expenses, mortgage interest, etc.) into one year.

∗Consider making your January mortgage payment in December to accelerate the interest deduction.

∗ <u>For people who expect to be in a higher tax bracket in the future or for those in AMT, the opposite advice is true</u>. Try to increase your 2008 income. In the latter case, it is better to pay tax at today's lower rates or accelerate income for AMT purposes.

∗ AMT – With the federal deficit growing, it is at least possible that some of the tax credits that provide some relief from the Alternative Minimum Tax in 2008 (e.g., the temporary increase in the AMT exemption credit) may not be available in 2009. Therefore, it becomes imperative that clients with one or more "AMT Preference Items" seek out year-end AMT planning assistance.

If you have questions or would like more information regarding year-end planning, please call us.

AROUND THE OFFICE

Congratulations… In September, **Carmen Turner** received her CFP designation. **Benson Choy** learned that he passed the July CFP exam and now only has to finish his experience requirement before receiving his designation. **Susan Morse** was profiled in the Northern California Golf Association Member Spotlight for her contribution to the sport. **Norm Boone** was once again named one of the nation's top financial advisors by Worth magazine (October, 2008).

At the Podium… In November, **Kevin Gahagan** spoke on the topic of behavioral finance to 150 members of the American Association of Individual Investors. **Holly Gillian Kindel** co-led an interactive seminar at the Financial Planning Association's Far West Round-Up in August on coaching skills financial planners can use with their clients. The seminar was so popular that attendees asked Holly and her co-leader to deliver an additional encore performance on the final day of the conference. **Sabrina Lowell** gave a presentation on financial planning software at the annual national conference for the Financial Planning Association in Boston. The session also addressed topics such as financial planning processes and withdrawal rates. **Geoff Zimmerman**, along with one of his colleagues from the Pro Bono Committee from the East Bay Financial Planning Association spoke to a group of people from the Contra Costa County's Independent Living Skills Program. The purpose of this program was to help educate groups of young people on how to better manage their cash flow; deal with debt issues, and the importance of establishing and maintaining a good credit record.

Education A Continuing Affair… In August **Holly** and **Carmen** traveled to South Dakota to enhance their coaching and counseling skills under the expert guidance of psychologist Ted Klontz and financial planner Rick Kahler. **Mary Ballin** continues her progress toward earning her CFP designation and recently completed the Employee Benefits class.

Giving Back to the Community… **Susan** continues with her work as a Board member of the Bank of San Francisco and with financial literacy efforts at SF high schools. In 2009, **Susan** joins the Advisory Committee for the L.P.G.A. as well as joining the Pacific Dental Foundation Board, which provides advisory and fund-raising services to the Dugoni Dental School (UOP's dental school). On November 3rd, **Mary** participated as a mentor in the Women's Initiative for Self Employment graduate business conference during their "Get Connected" session.

Furthering the Profession… **David Lawrence** has entered back into the world of academia as an adjunct professor at Golden Gate University. **David** is teaching a graduate level course called "Introduction to Financial Planning" to both aspiring CFP certificants and those just interested in learning how to better manage their own financial affairs. In September, **Mosaic** hosted a group of financial planners from across the country for a one-day workshop on Mosaic's planning processes and best practices. Participants each contributed $1,000 to the Foundation for Financial Planning for the opportunity to spend the day with our firm and learn how we work with clients and manage our business. $10,000 was raised for the Foundation.

On the PR front… **Norm** and **Kevin** were both interviewed several times by the media during the recent market turmoil. ABC picked up one of Norm's interviews, which was seen on TV across the country.

"Now we just have to sit back and wait for the Fed to bail us out."

Cash Flow Management (Spending) Tips

With the December holiday season approaching and the economy a bit shaky, we are hearing more inquiries about ways to better manage the monthly budget. Here are some suggestions offered by our staff and clients, many of whom have achieved their financial success from humble beginnings through a disciplined approach to saving and spending.

- Distinguish between "Wants" versus "Needs".
- If dollars are tight, forego the Filet Mignon and Organic Rice in favor of less expensive staples.
- Dine out infrequently, rather than as a usual part of the weekly or monthly routine.
- Write down every expenditure for two months. Most people who do this are amazed at where their money actually goes.
- Stop buying books and magazines at the bookstore; visit your local library instead.
- Reduce the amount of time looking at advertising, whether it is the TV or newspaper. Advertising is designed to motivate people to buy non-essential things; avoid it when you have a choice.
- Use credit cards sparingly and be disciplined about paying off credit card charges each month. If you can't afford to pay cash for it, don't charge it.
- "Freeze" your credit. Literally. Put the credit cards into a container of water and put the container in the freezer. The credit card is still available in an emergency, but it will be more difficult to use for a spur-of-the-moment purchase
- Stop buying new cars in favor of buying a car that is a year or two old. Keep your car as long as possible, preferably 10 years or more.
- Don't get caught short by known but irregular expenses. Write out all your yearly "must pay" expenses, add them up and divide by 12. Put the money aside so it will be there when needed.
- Adjust your tax withholding to avoid receiving a big refund. A refund represents an interest-free loan to Uncle Sam
- Make (instead of buy) holiday gifts
- Review your current financial plan, update it if needed, and stick to it!

Charitable Giving in Hard Times

In times like these, people are less often in a position to be generous – however, it is at precisely such times that generosity is most needed. Here are some ideas you might consider in making charitable donations.

Often overlooked, retirement accounts and life insurance policies can be tapped for charity. New laws allow those over 70½ to use their retirement accounts to gift directly to charity. Consider designating a charity as the beneficiary of your life insurance policy or simply gift the policy to the charity.

It is almost always beneficial to gift appreciated securities rather than cash. For larger gifts, it may be worth considering gifting illiquid assets such as real estate or other valuable assets, although not all charities are set up to receive them.

Charitable Lead Trust (CLT) are a financially attractive way to move valuable assets to your kids, while also helping charity, especially while interest rates are low. A CLT passes the income from the gifted asset to the charity for the period of the trust and then the remaining property reverts to the owner or designated beneficiaries, usually at a big discount. At the time assets are placed in a CLT, the donor receives a gift tax deduction equal to the present value of the income stream.

Donor-Advised Funds (DAF) are especially helpful if you have a single appreciated asset but give to lots of charities, or if you need a tax deduction now, but want to spread the actual gifting over more than one year. In a DAF, the donor directs where the gifts go, when they go and how much each charity is to get.

Remember that giving of your time and/or expertise can have a greater impact than making a financial contribution to charity. As a volunteer or a board member, you can have a direct and personal impact on causes you care about.

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Thoughts to Live By

"Adulthood is defined by the willingness to accept full responsibility for where you are at in life; no longer blaming others or circumstances." -- Joe Westbrook

"If you are able to state a problem, it can be solved." - Edwin H. Land

"Your profession is not what brings home your paycheck. Your profession is what you were put on earth to do with such passion and such intensity that it becomes spiritual in calling." -- Vincent Van Gogh

"A people that values its privileges above its principles soon loses both." - Dwight D. Eisenhower

"Master your responses to external events--don't attempt to control them." - Caroline Myss

"It is our choices that show what we truly are, far more than our abilities." - J.K. Rowling

"If you would be loved, love, and be lovable." -- Ben Franklin