

2009 Stimulus Plan

President Obama has just signed the American Recovery and Reinvestment Act of 2009. The act includes a range of provisions that are expected to assist many people. Items which may impact you include:

Extension of Alternative Minimum Tax relief.

The bill provides AMT Tax relief to more than 26 million families in 2009, extending nonrefundable personal credits and increasing the AMT exemption amount to \$70,950 for joint filers and \$46,700 for individuals.

Exclude Private Activity Bonds from AMT

Tax. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces state and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (tax-exempt housing bonds) from the AMT. The bill excludes the remaining categories of private activity bonds from the AMT for bonds issued in 2009 or 2010.

Sales Tax Deduction for New Vehicle Purchases. The bill provides taxpayers with a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles, and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 for joint returns).

Parity for Transit Benefits. Current law allows employers to provide a tax-free fringe benefit for transit and parking. These benefits are currently set at different dollar amounts. The bill would equalize the tax-free benefit employers can provide for both transit and parking. The new law sets both the park-

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Risk Profiles and The Efficient Frontier

Colin Powell said, “There are no secrets to success. It is the result of preparation, hard work, and learning from failure.” Looking in the rearview mirror at the wreckage of the market in 2008, we can all agree that it was a tough year. That said, what lessons can we take away?

Portfolio designs range from very risky to very conservative. As the target for greater expected returns rises, the level of risk that accompanies the portfolio also rises. When charting the portfolio changes, as can be seen on page 3, the curve is known as the “Efficient Frontier.” At any point of risk on the curve, the portfolio at that point should be designed to realize the highest rate of return over time. Similarly, at any point of expected return on the curve, the portfolio at that point should be designed to realize the lowest risk.

When choosing the most appropriate portfolio design for you we first look at your goals and financial needs. We then find the best match on the efficient frontier—giving you the best probability to achieve the returns you need with the least amount of risk. Said another way, this ‘frontier’ is a mix of secu-

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ing and transit benefits at \$230 a month for 2009 and indexes them equally for 2010.

Computers as Qualified Education Expenses in 529 Education Plans. Section 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including: tuition, room & board, mandatory fees and books. The bill provides that computers and computer technology will now meet the qualified education expense definitions.

Tax Credits for Energy-Efficient Improvements to Existing Homes. The bill extends the tax credits for improvements to energy-efficient existing homes through 2010. Under current law, individuals are allowed a tax credit equal to ten percent of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the taxable year. The current tax credit is capped at \$50 for any advanced main air circulating fan, \$150 for any qualified natural gas, propane, oil furnace or hot water boiler, and \$300 for any energy-efficient building property item. For 2009 and 2010, the bill increases the amount of the tax credit to thirty percent of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. The bill also eliminates the property-by-property dollar caps on this tax credit and provides an aggre-

gate \$1,500 cap on all property qualifying for the credit. The bill updates the energy-efficiency standards of the property qualifying for the credit.

Premium Subsidies for COBRA Continuation Coverage for Unemployed Workers. Recession-related job loss threatens health coverage for many families. To help people maintain coverage, the bill provides a 65% subsidy for COBRA continuation premiums for up to 9 months for involuntarily terminated workers and their families. This subsidy also applies to health care continuation coverage for small employers if required by states. With COBRA premiums averaging more than \$1000 a month, this assistance is vitally important. To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. The subsidy terminates upon offer of any new employer-sponsored health care coverage or Medicare eligibility. Workers who were involuntarily terminated between September 1, 2008 and enactment, but failed to initially elect COBRA because it was unaffordable, would be given an additional 60 days to elect COBRA and receive the subsidy. To ensure that this assistance is targeted at workers who are most in need, participants must attest that their same year income will not exceed \$125,000 for individuals and \$250,000 for families.

DonorsChoose.org—A Way to Help Schools

Due to lack of school funding, teachers have either had to fund a project out of their own thin wallets or forego the project. Now you can help:

www.DonorsChoose.org provides a way for teachers to submit their projects, which are lacking funding, to the website and people can find one or more they like and fund the whole request or just a portion of it. Teachers in public schools around the country submit requests for everything from aquarium supplies for a biology class to a working clock so kids can learn to tell time. Schools range from pre-K to high school and the projects can be searched by city and state. Whether interested in pre-K literacy or science field trips, donors can select the specific project that

they feel will have the biggest impact or are most passionate about.

DonorsChoose.org provides "end to end" integrity. They screen each project proposal before posting it online; purchase the materials for the teacher (shipping directly to the school); and compile photographs, student thank-you notes, and a teacher Impact Letter as feedback for the donors who donate to the project.

Beyond helping with the logistics of linking givers with schools, DonorsChoose.org provides matching donations (up to 25% of a project's cost) for projects from more impoverished schools. The site also allows you to provide gift cards for friends or family, giving them the option of which project they want to support.

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curities that include stocks, bonds, and commodities that maximize the return an investor can obtain with a given amount of volatility over the life of the portfolio. The equities (stock) portion of the portfolio is made up of a basket of companies that roughly represent the investable world. Historically, stocks have offered the highest returns, but also carry the highest risk, or volatility. The more volatility an investor is willing to accept, the more equities that can be put into the portfolio, theoretically generating higher returns.

To estimate your specific return requirements we try to understand your lifestyle and your cash flow needs. We use this information to create a capital needs analysis which models thousands of different outcomes (including years with returns similar to 2008); this gives us an estimate of the probability of satisfying your cash flow needs over your lifetime. We match your return needs with your current and future assets to determine how much risk you are likely to need to take to meet your future targets. We believe investors should not take on more risk than is necessary to achieve their goals. But if, based on historical data, the level of risk exceeds your tolerance for volatility, we may need to change your portfolio's design. Lower expected returns will reduce risk; it will also, therefore, reduce what you can spend each year and still be able to satisfy your cash flow needs over your lifetime.

While last year likely did not affect your future income needs (you will still need a certain amount of money for your retirement), it did affect the value of your portfolio. It also affected some of the expectations we have of the portfolio. The risk and volatility inherent in the equity side of the portfolio was substantial and obvious last year. But a portfolio's volatility should be considered within the longer term view of the marketplace as a whole—not just looking at 2008. But even with a long term perspective, the market's volatility has everyone, even advisors, rethinking risk tolerance.

There are creative ways to try to deal with market volatility. One can employ specialized investments such as long-short or bear market funds, buy-

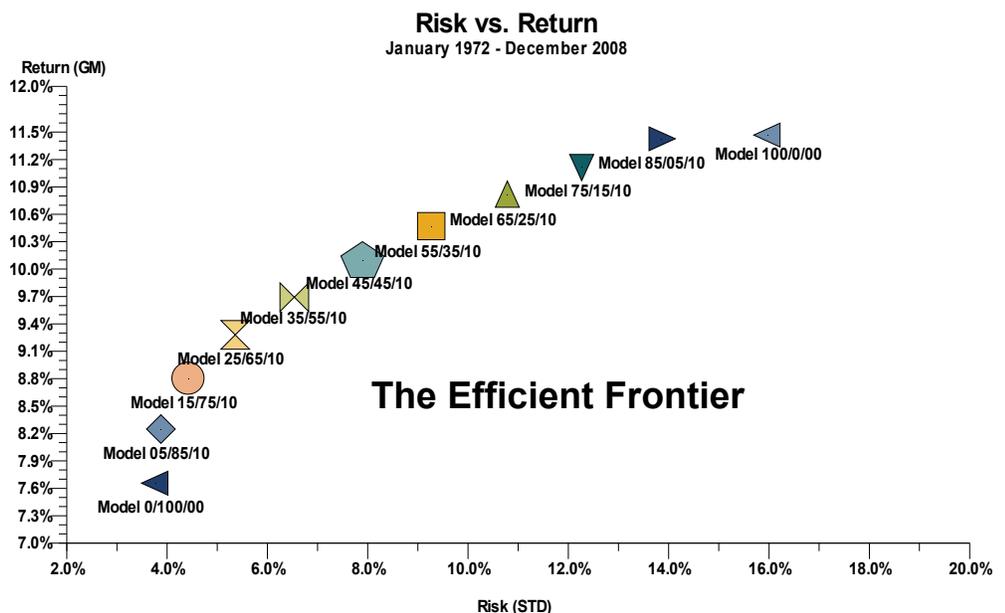
ing market puts which rise when the market falls or structured notes to provide protective hedges—each has advantages and risks. But the simplest way to mitigate portfolio risk is to move down the efficient frontier—to take less risk and accept lower returns. A smaller portion of stocks will lower your expected returns but may provide you with fewer sleepless nights.

If you are struggling with the volatility of your portfolio, please talk with us about adjusting your portfolio.

As a result of 2008, the whole idea of diversification as a means to lower portfolio risk has been challenged. Diversification assumes that different classes of investments will often behave differently from one another. In aggregate, in most years these differences are expected to smooth out the volatility of a portfolio. In 2008 nearly all securities moved downward in lock step. Despite the experience of 2008, we maintain faith in the fundamentals of diversification.

Even with the challenges of 2008 and the further declines of 2009, we continue to believe that over the long run all our asset classes will produce positive future returns.

We continue to believe in the markets and the fundamental pillars of our investing approach—diversify, keep costs low, maintain appropriate risk levels. As an investor, your critical role is to provide guidance about the risk you can tolerate, and when markets are under stress try to keep your expenses low so that the pressures on your portfolio are minimized.



AROUND THE OFFICE

Congratulations... **Norm Boone** and Mosaic were named by Business Week magazine (February 23, 2009) as one of the 100 Top Financial Advisors, of whom six were from California. Also, **Norm** and **Linda Boone's** software (www.IPSAdvisorPro.com) has learned that it will be named by CPA Financial Planning as the outstanding industry software in its April, 2009 issue. IPS Advisor Pro is an online software tool directed toward professional advisors to help them efficiently create customized investment policy statements.

At the Podium... In early February, **Kevin** spoke to the American Nuclear Society's Northern California Section. His talk, "The Lessons of 2008 – Implications for Planning and Investing," generated some spirited Q&A following his prepared remarks. With the continuing concerns about the markets driving the headlines, **Kevin** and **Norm** have been regular commentators on the markets and appropriate investor actions on several local TV newscasts.

Furthering the Profession... **Holly Gillian Kindel** has resumed her adjunct professor duties teaching the "Introduction to Financial Planning" course at Golden Gate University.



Giving Back to the Community... In December **Holly** concluded her sixteen week stint serving as a mentor in the Financial Planning Association's Practicum at Golden Gate University. During the course **Holly** and her two students created and delivered a customized, comprehensive financial plan for a low-income resident of San Francisco. **Geoff Zimmerman** continues to be involved in the Lafayette community through the Rotary Club of Lafayette. He is currently chairing the Ambassadorial Scholarship program and is on the planning committee for the annual "Concert at the Res" taking place on May 16th. **Andrew Boone** is teaching a SAT prep class to local high school sophomores and juniors through the Boys and Girls Club of San Francisco.

Education a Continuing Affair... **Mary Ballin** finished the Retirement and Employee Benefits class in November at UC Berkeley Extension. This was the last required course needed for Mary to qualify to sit for the Certified Financial Planner exam. She is now devoting her spare time and energies to preparing for the CFP exam to be held on March 20th and 21st. **Carmen Turner** completed the 120 hour intermediate coach training program at The Coaches Training Institute (CTI).

Exotic Travel... **Sabrina Lowell** went scuba diving with sea turtles in Hawaii. **Norm** and **Linda** took their final extended trip for a while to Buenos Aires and Antarctica in November.

Employee Highlight—Jason Choy

Benson Choy and his wife Mariko welcomed their first child, Jason Choy, into their lives in November 2008. Jason was full term and a whopping 9 pounds. Although Benson is sleep-deprived, he finds fatherhood more fulfilling than he imagined. And, as the responsible financial planner that he is, Benson has already opened up Jason's 529 College Savings Plan account.

If you have any educational funding questions, please do not hesitate to contact us.

Staying Positive

Over the past year, the gyrations of the markets and the economy have caused many to have doubts about the future. While none of us can change the market or economy, there are things that we can control: our attitude and our lifestyle.

Our perspectives and attitudes are influenced daily by the environment around us and the choices we make. Whether we watch CNN or read the comics, the choice changes our mood. During these turbulent times here are some things you can do to help keep yourself in a positive frame of mind.

Engage in regular exercise. The research is overwhelming—daily exercise improves your mood, helps combat chronic diseases, manages weight, strengthens heart and lungs, promotes better sleep, sparks your sex life and can even be fun. All these benefits work towards improving your overall outlook.

Cultivate, recognize and express gratitude. Cultivating gratitude can be as simple as making it a priority to take note of what is right and good around you and

to observe things you are grateful for throughout the day. Observations may be as mundane as appreciating a clear sky or good cup of coffee or as remarkable as acknowledging your deep love for someone. Once you assign yourself the task of observing what's right with the world, you are likely to notice more of the good around you. One moment of appreciation leads to another, which leads to another.

Recite the top five - ten things you are grateful for. At the beginning or ending of the day or before or after a meal, try creating a list of things for which you are grateful for. Sharing with family members not only creates a common family experience but also lets all the people in your life know how much you appreciate them, which will help them feel good. In turn, a positive reaction from them will help put you in a good mood. Further, they will likely pass on that good feeling to others in their life, creating a ripple effect. To experience the full benefits, try writing down your "gratitudes" every day for a month.

The Future of Inflation

As oil prices reached record levels during the first half of 2008, inflation was on everyone's mind. Each time you passed a gas station, a higher price was on display. But then, in the last half of 2008, commodity prices dropped as the credit crisis and ensuing recession took hold. Now the concern about inflation has been replaced by talk of deflation. The combination of rising unemployment and tighter credit markets has caused consumer demand to decline. Many businesses are now lowering their prices to attract customers and negotiating lower costs with their suppliers.

To combat the economic downturn, the federal government has passed a large stimulus package and the Federal Reserve Bank has dropped rates to virtually zero while increasing the supply of money in the economy. These efforts are intended to make borrowing cheaper, and thus encourage capital investment (lower interest rates lowers the cost of the investment). It is hoped these actions will spur growth and create demand. However, the result could also be higher inflation. If the Federal Reserve does a good job in meeting the economy's monetary needs, inflation should return to

normal. But if key rates are kept too low for too long, inflation is likely to become a problem in the future.

If we do have to face a new bout of inflation, what can you do? On the fixed income side, Treasury Inflation Protected Securities (TIPS) are an excellent hedge against the risk of inflation. Part of TIPS' return is directly tied to inflation with a small fixed "real" yield making up the balance.

Also, in a growing economy where there is increasing demand for food and resources but a relatively limited supply of goods, commodities will generally provide a good inflation hedge.

Not knowing when inflation will occur, or how long it will last, raises the question as to whether it is possible to time your investment into and out of "inflation-friendly" investments? Because such predictions are so hard to make consistently and successfully, we suggest the best approach is to be diversified across both the inflation-friendly and the more traditional investments. We can then capture some of the benefits of each.

Thoughts to Live By

"I can't change the direction of the wind, but I can always adjust my sails to reach my destination." -- [James Dean](#)

"Our greatest glory consists, not in never falling, but in rising every time we fall." -- [Oliver Goldsmith](#)

"Men build too many walls and not enough bridges ." -- [Isaac Newton](#)

"Act as if what you do makes a difference. It does ." -- [William James](#)

"Most folks are about as happy as they make up their minds to be ." -- [Abraham Lincoln](#)

"Many people like to think that they'll find balance AFTER they find success. But in reality, achieving balance IS success." -- [Brian Koslow](#)